AR57



1998 ANNUAL REPORT

The Value of Lasting Relationships

Investors Group™



John and Gladys Guthrie

ENJOYING LIFE

REALIZED: A worry-free retirement, thanks to years of valued advice.

Investors Group clients since 1964

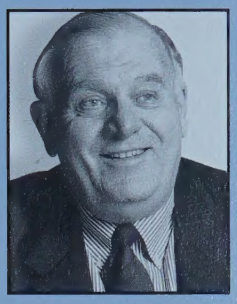
Our tradition of per

1926: Investors Group first begins serving the financial needs of Canadians through our founding company Investors Diversified Services.

1950: Investors Group predecessor Investors Syndicate Ltd. launches the company's first mutual fund. Today we offer our clients a broad choice of 62 funds.

1971: With the goal of providing a complete financial plan, Investors Group adds insurance to the broad range of investments and mortgages they offer.

34 Years



Ted Foreman,
Chartered Financial Planner

"TED FOREMAN IS THE BEST THING THAT EVER HAPPENED TO US," claims John Guthrie from Pinawa, Manitoba. His wife Gladys agrees, "Ted's advice over the years has been invaluable." When their children were small, the Guthries knew they wanted to do something for the future. A chance conversation put them in touch with Ted Foreman, who was just beginning his career with Investors Group.

What started as a $100 a month savings plan, blossomed under Ted's guidance so that the couple today, after 15 years of retirement, still have the freedom to enjoy life and help their children when they need it. The tremendous value of this relationship is best described by John who says, "Ted has been more than a financial advisor; he's been a good friend."

Throughout this Annual Report, you'll find other examples of the value of lasting relationships. Without a doubt, they are one of the great benefits of Investors Group's personal financial planning approach.

For 36 years, Investors Group representative Ted Foreman has been using his expertise to build wealth for the benefit of his clients in the Winnipeg area.

onal financial planning

1976: The Investment Funds Institute of Canada adapts Investors Group's financial planning courses as the basis for courses leading to the Chartered Financial Planner designation.

1996: Client service takes a giant leap forward with the introduction of IG Advantage, putting state-of-the-art laptop technology in the hands of every representative.

1998: Investors Group continues to expand the range of choices available to clients through the acquisition of MAXXUM Funds, the mutual fund operation of London Life.

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Corporate Profile

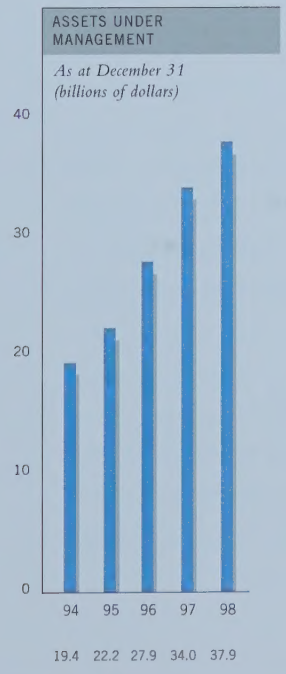
FOR MORE THAN 70 YEARS, Investors Group has been advising Canadians of the benefits of long-term financial planning. Our 3,774 representatives offer Investors Group clients a unique package of personal financial planning services and a full complement of financial and investment options from mutual funds and Guaranteed Investment Certificates to insurance and mortgages. Our representatives, who live and work in most communities in Canada, are supported by 100 Financial Planning Centres across the country. Investors Group is proud to count more than one million Canadians as our clients.

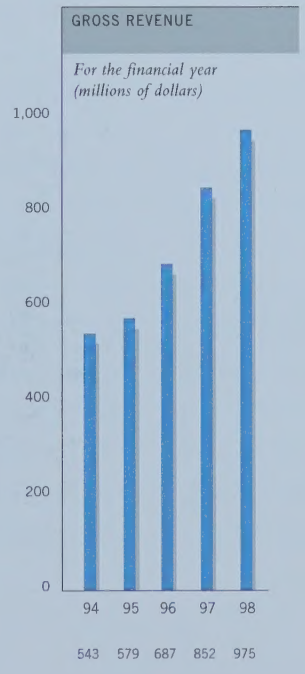
Investors Group Inc. is a member of the Power Financial Corporation group of companies. Investors Group's Head Office is located in Winnipeg, Manitoba. The Corporation's shares are listed on The Toronto Stock Exchange, The Montreal Exchange, and The Winnipeg Stock Exchange.

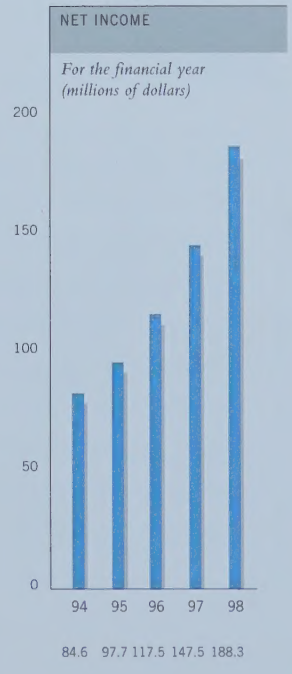
On the Cover: Investors Group clients, John and Gladys Guthrie, enjoy an afternoon of bird watching.

Financial Highlights

	1998	1997	Change
NET INCOME *(in thousands of dollars)*	$ 188,344	$ 147,512	27.7%
Earnings per share	$ 0.89	$ 0.70	27.7%
Dividends per share	$ 0.38	$ 0.30	26.7%
Return on average common equity	23.8%	21.1%	–
MUTUAL FUNDS *(in thousands of dollars)*			
Sales	$ 6,295,975	$ 6,513,415	-3.3%
Redemption rate	10.0%	9.9%	–
Net sales	$ 2,886,574	$ 3,522,113	-18.0%
Assets under management	$ 36,063,827	$ 32,248,292	11.8%
MORTGAGES *(in thousands of dollars)*			
Originations	$ 958,963	$ 1,001,634	-4.3%
Mortgages serviced	$ 8,144,143	$ 4,157,035	95.9%
INSURANCE *(in thousands of dollars)*			
Sales (annualized premiums)	$ 18,715	$ 14,359	30.3%
In force (face amount)	$ 14,548,371	$ 12,279,426	18.5%
DEPOSITS AND CERTIFICATES *(in thousands of dollars)*			
Sales	$ 78,225	$ 93,537	-16.4%
Deposits & certificates	$ 371,628	$ 488,022	-23.9%
BROKERAGE ACCOMMODATION *(in thousands of dollars)*			
Assets under administration	$ 589,728	$ 315,949	86.7%
Clients	1,013,206	939,664	7.8%
Client accounts	3,678,091	3,094,528	18.9%
Representatives	3,774	3,507	7.6%
Employees	1,592	1,407	13.1%
Financial Planning Centres	100	100	–







Report to Shareholders



PRESIDENT'S MESSAGE

"To see the value of our client relationships, look to the outstanding results Investors Group achieved in 1998."

H. Sanford Riley, *President and Chief Executive Officer*

A PERSONAL APPROACH TO BUSINESS

Investors Group enjoyed another year of strong performance, highlighted by record earnings in 1998. In addition, the company had a very strong sales year - mutual fund sales reached $6.3 billion, new accounts rose by 19% and our insurance business grew by 30%. At the heart of our continued success are the more than one million client relationships developed by our highly skilled, professional Investors Group representatives.

On the pages that follow you'll meet some of our clients and their representatives, see our personal financial planning approach in action, and come to appreciate the high value we place on relationships.

Canada's leading personal financial services organization

The recognition that a client's personal financial affairs should be developed within a financial planning framework is not new to Investors

Group. Throughout our 72-year history, personal financial planning has been at the very heart of what we do.

$36 billion in assets under management. In 1998, we further expanded our capacity by acquiring MAXXUM Funds from London Life.



CLIENT RELATIONSHIPS

"Our client relationships are considered to be one of our greatest assets."

Mike Miller, *Executive Vice-President, Products and Distribution*

Investors Group pioneered financial planning in Canada. We were a driving force behind industry development, playing a major role in the formation of the Canadian Association of Financial Planners and the development of the Chartered Financial Planner designation, and in helping to establish the Investment Funds Institute of Canada. We continue to take a leadership role in areas of professional standards, education and regulation.

A growing range of products and services

To meet the diverse financial planning needs of a wide range of clients, we are continually expanding our products and services. Over the past five years, Investors Group has become one of Canada's largest distributors of insurance products; 85% of our representatives are currently licensed to provide insurance to our clients.

Today we rank among the top mortgage administrators in Canada. Our brokerage subsidiary, Investors Group Securities Inc., administers close to $600 million in assets.

Investors Group continues to be Canada's leading manager of mutual funds, with over

Our representatives make the difference

While we have the size and scale of many other financial institutions, and offer similar products and services, what really distinguishes Investors Group is the advice and service that we provide through our representatives.

We ensure the quality of our representatives through a rigorous selection process, followed by extensive training in representative schools and ongoing development through the Investors Group Institute, our comprehensive in-house continuing education facility. Our representatives are fully supported through state-of-the-art technology and an extensive network of mortgage, insurance, securities, tax and advanced financial planning specialists.

To achieve success, our representatives must be the most knowledgeable and well-trained in the industry. Experience is also a key asset, with 53% of our representatives having four years or more in the business.

Many organizations have tried to replicate our approach, but we know that a distribution system as strong as ours takes decades to develop.

Our approach is built on the time-tested value of our financial planning ethic and the collective wisdom that comes from operating in financial markets for more than 70 years.

THE VALUE OF OUR INVESTMENT STRATEGY

The past year was marked by volatility in the financial markets. After a prolonged bull market, uncertainty dominated from June onwards. Canadian equity markets corrected by 31.8% from their highest point in April, but by the end of the year the TSE 300 Composite Index had recovered by 21.6%, ending the year with only a slight loss.

Volatility in financial markets is nothing new. Since Investors Group introduced its first mutual fund 48 years ago, there have been 12 occasions on which the Canadian markets have declined by 15% or more. In that same period, however, the markets have experienced an overall increase of 2854%.

Recent events have served to underscore the importance of the long-term, balanced, and well-diversified approach that Investors Group brings to the management of our clients' investments. Our clients' successes over many decades prove that this is the best approach to dealing with the inherent short-term fluctuations of the financial markets.

Our representatives have the training and experience to guide their clients through variable markets. They spend considerable time with clients, reviewing their plans and goals, and encouraging them to employ prudent strategies such as dollar-cost averaging, asset allocation programs, proper use of RRSPs and diversification. Investors Group offers a selection of unique portfolio funds, specially designed to provide a simple and convenient way for our clients to pursue a diversified and balanced investing approach suited to their personal goals.

COMPETING FROM A POSITION OF STRENGTH

Competition within the financial services sector for the management of long-term assets continues to increase, changing the landscape of the Canadian marketplace.

Today, we are seeing more competition from domestic companies such as life insurers and banks, as well as from some of the world's largest international mutual fund companies and banking concerns which have recently entered the Canadian market. This is a trend that we expect to continue.

Despite the challenges of increased competition, we view our position as one of strength. Investors Group continues to stand apart from



PRODUCTS AND SERVICES

"We continue to develop new products and services to meet the changing needs of our clients."

Sandra Metraux, *Senior Vice-President, Marketing*

other financial services companies because of our commitment to a strong and growing distribution system and our personal approach to providing financial planning advice and service to our clients. This is why our business has prospered over the last 72 years. Our challenge is to continue to evolve our methods, systems and products in the future, as we have in the past, while keeping an eye on the historical strengths that have been the key to our success.



COMMITMENT TO FINANCIAL PLANNING

"Investors Group's commitment to financial planning makes us unique among financial institutions."

Jean-Guy Gourdeau, C.A., C.F.A., *Senior Vice-President, Strategic Initiatives*

Industry developments

A number of significant developments in 1998 are a precursor to change in the financial services sector in Canada. Over the course of the year, we heard from the MacKay Report, the Competition Bureau, several parliamentary committee reports and, more recently, Office of Consumer Affairs, Industry Canada, which released a second report on the mutual fund industry prepared by former Ontario Securities Commissioner Glorianne Stromberg.

We also saw the establishment of the Mutual Fund Dealers Association of Canada (MFDA) and the implementation by various provincial securities regulators of a more comprehensive regulatory environment for mutual funds.

We believe that this thorough review of the financial services sector currently under way is both necessary and good for the industry. The introduction of fair rules of competition for both domestic and foreign companies is essential to foster and maintain a strong and competitive Canadian industry.

We also believe that open access to the Canadian Payments System is essential for meaningful competition to occur.

Above all, we believe that increased consumer protection is vital for the long-term health of the industry. We continue to encourage regulators to insist on greater consumer disclosure and higher professional standards. The fact that provincial securities regulators are now working together closely on consumer issues is extremely encouraging. We are also pleased by the initial efforts undertaken to coordinate the activities of the MFDA and other regulatory groups such as the Investment Dealers Association.

Internal initiatives

While developments proceed on an industry level, Investors Group has made considerable progress internally. As a long-time advocate of stronger consumer protection, we believe that

financial planning should be widely available to Canadians but with standards in place so that consumers are well-served. To this end, we have established a partnership with Laval

Strong results

Net income for 1998 increased by 27.7% to $188.3 million and earnings per share rose to $0.89, up 27.7% from 1997. Dividends per share



CLIENT SERVICE

"We continue to fine-tune our operations to provide top-quality service at reduced costs."

Gary Wilton, *Executive Vice-President, Client and Information Services*

University which allows our representatives to pursue university-level financial planning courses. As a further indication of our commitment to professional development, we require that all new representatives attain their Certified Financial Planner designation within five years of joining Investors Group.

Investors Group's client communications – special reports, newsletters, seminars and our newly re-designed client statements – go a long way in educating and informing clients about financial matters.

We have a long history of supporting self-regulation of the industry, with many of our senior officers serving on the Investment Funds Institute of Canada and the Mutual Fund Dealers Association of Canada.

RESULTS AND ACHIEVEMENTS

Despite the uncertainty that gripped the financial services sector for most of the year, our results continue to show significant improvement and impressive growth.

increased for the ninth consecutive year, rising 8 cents to $0.38.

Over the course of 1998, Investors Group's shareholders' equity base expanded, reaching $850.9 million. Return on equity at 23.8% was the highest achieved since 1987.

Through investment growth and new sales, assets under management grew by 11.3% to $37.9 billion. We attracted 73,000 new clients over the year, an increase of 7.8%.

Despite market conditions, net mutual fund sales were steady at $2.9 billion, within 18.0% of 1997's record-high results. Our redemption rates remain among the lowest in the industry at 10.0% and speak to the quality of our client relationships. Growth of our sales force was strong, with the addition of 267 representatives in 1998, bringing the total to 3,774.

The move to broaden our product range continues to pay dividends, with insurance sales up by 30% over 1997 – our best sales year yet. Since we established I.G. Insurance Services Inc. three years ago, first-year premiums have grown by

330% and our sales force is now one of the top distributors of life insurance products in Canada.

While mortgage originations throughout Canada were down, Investors Group's mortgage originations remained steady at $959 million.

Achievements

There has been significant attention focused on the Y2K computer issue. Throughout 1998, we took the steps necessary to prepare our own systems and we have also been monitoring the progress of our suppliers and business partners to ensure we are ready for the Year 2000.

Four years ago, Investors Group identified a number of changes to our processes which would improve the efficiency of our business. At that time, our non-distribution costs were 0.54% of average mutual fund assets under management. Today they are 0.30%. As the scale of our operations grows, and with continued improvements, we see an opportunity for even greater savings.

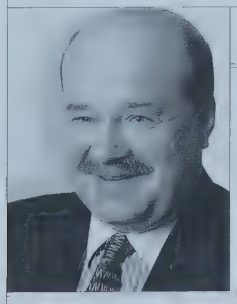
Our strategic relationship with Great-West Life and London Life has allowed for further operational efficiencies. We have streamlined our Call Centre and Corporate Contact Centre operations, resulting in improved service. Mutual fund accounting for Investors Group and London Life was consolidated under Investors Group. We now handle the administration of all London Life's residential mortgages. With $8 billion in mortgages under administration, Investors Group ranks among the top eight mortgage administrators in Canada.

A SOLID FOUNDATION FOR FUTURE SUCCESS

Our focus on building lasting client relationships through professional and knowledgeable representatives has produced one of our most enviable assets – a large and stable client base which we are continuing to develop. As we look to 1999 and beyond, we see a number of opportunities to further strengthen our business.

Opportunities through strategic relationships

Our relationship with Great-West Life and London Life continues to be a valued source of opportunities. We are often asked how these three companies, which compete with one another in a number of areas, can work so effectively together. The answer is that we respect each company's areas of expertise and business practices, and recognize that we can build on each other's strengths in order to deal more effectively within a market of large domestic and international competitors.



RECORD EARNINGS

"Through increasing representative productivity and by effectively controlling expenses, we've achieved our 8th consecutive year of record earnings."

Gregory D. Tretiak, C.A., C.F.P., *Senior Vice-President, Finance*

Investors Group's capacity as a manufacturer of high-quality investment products, and the acquisition of MAXXUM Funds from London Life, allow us to provide both Investors Group representatives and the sales force of London Life with a comprehensive mutual fund product shelf.

Great-West Life continues to be instrumental in assisting I.G. Insurance Services Inc. Recently, for example, Great-West Life helped us develop a line of segregated funds, to be introduced in early 1999.

Focused on client service

We are committed to making continual improvements, with the goal of serving our clients better. Going into 1999, a number of initiatives are well under way.

Our new client statements keep clients fully informed while providing asset allocation and tax planning data to assist in the management of their financial plans. We expect to launch new Internet-based capabilities for representatives and expand our laptop technology to accept transactions, making it easier to do business with Investors Group. In addition, further extensions to our range of products and services are planned.

We believe that the combination of our traditional values, personal approach to financial planning, commitment to improved service, and quality of our strategic relationships strongly positions Investors Group for the future. These core strengths will continue to help Investors Group build the lasting client relationships that are the platform for our success.

AT WORK AND IN THE COMMUNITY

In towns and cities across the country, from Corner Brook to Cranbrook, and Winnipeg to Montreal, Investors Group makes its presence known by supporting our employees and representatives in community involvement.

Through an extensive program of matching gifts, grants and sponsorships, Investors Group helps our employees and representatives give to the causes and organizations they support.

On the corporate front we are proud to be designated a caring company by Imagine – the Canadian Centre for Philanthropy. One of the key areas of our support is youth education and development. Our Money and Youth Program, developed with the Canadian Foundation for Economic Education, is being used in high schools across the country to teach students about managing money. "Street Cents" is a television program aimed



COMMUNITY GIVING

"Our focus on community giving is fundamental to our business and a longstanding tradition."

W. Terrence Wright, Q.C., *Senior Vice-President, General Counsel and Secretary*

at helping young people become better-educated financial consumers.

Investors Group is committed to sharing culture with Canadians through our sponsorship of arts and cultural programs in centres across Canada. We continue to assist amateur athletics through the support of the Canadian Coaching Association, Volleyball Canada and as a major sponsor of the 1999 Pan Am Games to be hosted by our home city of Winnipeg.



INVESTMENT PHILOSOPHY

"Patience, rather than market timing, rewards the long-term investor."

Richard E. Archer, C.F.A., *Executive Vice-President, Investments*

Outstanding efforts

Investors Group's tremendous success in 1998 would not have been possible without the outstanding efforts of our people. Our head office employees, representatives and Financial Planning Centres staff are all to be congratulated on a job well done. In the face of considerable change and many challenging developments over the past year, their contribution is greatly appreciated.

We are grateful for the experience and collective wisdom of our Board of Directors and their efforts over the past year. Joining the Board in 1998 was John McCallum, a Professor of Finance at the University of Manitoba. His past experience as a special advisor to the Federal Minister of Finance and Chairman of the Board of Manitoba Hydro will be a valued addition to the Investors Group Board.

We appreciate the confidence placed in Investors Group by our shareholders, employees, representatives and clients. Thank you for your continued support.

On behalf of the Board,

H. Sanford Riley
President and Chief Executive Officer
Investors Group Inc.
January 29, 1999



Rob and Karen Russell
with sons Jordan and Braedan

ACTIVE FAMILY

ACHIEVED: A head start on the road to financial independence.

Investors Group clients since 1992

Swimming Pool • Cottage • Hockey

1992: Ready to start focusing on retirement, the Russells contributed to RRSPs, maximizing foreign content through a well-diversified portfolio.

1992: With the goal of income splitting in retirement, started a spousal RRSP for Karen, investing in growth-oriented mutual funds.

1992-1998: Through regular meetings, revised and rebalanced the Russells' portfolios to take advantage of new investing opportunities.



Ralph Weekes,
Chartered Financial Planner

6 Years

KEEPING PACE WITH THIS ACTIVE FAMILY WOULD LEAVE MOST PEOPLE EXHAUSTED. With two growing boys and an avid interest in sports themselves, Rob and Karen Russell find their time at a premium. But thanks to a long-term relationship with Investors Group representative Ralph Weekes, the Russells have made great strides toward reaching their goals. "Ralph and I went to university together," says Rob, "I have tremendous respect for his knowledge and experience."

Rob started out with Investors Group before he was married. Once Rob had family responsibilities, Ralph showed him how to adapt his plan to make sure his family would be well looked after. A former teacher, Karen places a high value on their children's education. She explains, "We want to have the resources to provide the best possible education for the boys – it's so important for their future." With the help of Investors Group and their representative Ralph Weekes, the Russell family's financial future certainly looks bright.

Investors Group representative Ralph Weekes knows that it's possible to reach goals when you follow a well-designed plan.

Games · Snowboarding · Private School

997: To balance with the couple's business
vestments, set up a non-registered portfolio
ith a focus on other types of investments.

1997: As an alternative to an RRSP, used a leveraging program to accumulate additional assets on a tax-advantaged basis.

1998: Opened Registered Education Savings Plans to provide future post-secondary education funds for sons Jordan and Braedan.



Richard and Ulrike Webber

COMMITTED INVESTORS

DISCOVERED: The tremendous value of disciplined savings and tax planning.

Investors Group clients since 1976

Baseball Games. University. A Fun

1976: The Webbers started a monthly investment plan to begin saving for their future.

1981-1988: With Investors Group's national presence, the Webbers continued to update and evolve their plan as the family moved east.

1989: Began saving for their children's university education using a diversified portfolio of Investors Group mutual funds.

22 Years



Barbara Benke,
Certified Financial Planner

A MODEST SAVINGS PLAN WAS HOW THEY GOT STARTED and the Webbers have never looked back. "Our goals today are certainly a lot clearer than they were 22 years ago. Back then we were just happy to start saving," remarks Richard.

Today the Webbers are looking forward to a financially secure retirement. As they've moved across the country, Investors Group was always there with well-trained, professional representatives to help them evolve their plan. Working with Barbara Benke in London, Ontario, the Webbers have been able to accelerate their savings with some innovative tax-planning strategies. Richard says, "We meet with Barbara at least twice a year. She's always well-prepared and extremely knowledgeable."

The security of their Investors Group program has given the Webbers the freedom to pursue new career interests, send children Jennifer and Mike to university, and still enjoy life. As Ulrike explains, "Investors Group showed us that building up our net worth wasn't a hard thing to do."

Investors Group representative Barbara Benke makes a point of meeting with her clients at least twice a year to help them stay focused on their goals.

Car · Figure Skates · Going South

1993: Implemented an RRSP loan program, topping up their RRSP contributions and paying off the loan with their tax savings.

1995: Changing employers resulted in Richard transferring his pension assets to an Investors Group locked-in RRSP.

1998: By transferring their mortgage to Investors Group, the Webbers were able to lower their payments and put even more aside for the future.



Jim and Elaine Reed
with children Matthew and Jessica

OUTDOOR ENTHUSIASTS

RECEIVED: Trusted advice, personal attention and a plan for the future.

Investors Group clients since 1994

Community Work • Teeing-off • Soccer

1994: To fit with their long-term goals, the Reeds' retirement assets were consolidated into a diversified portfolio of Investors Group mutual funds.

1994: Established a spousal RRSP for Elaine, allowing the couple to take advantage of income splitting for additional tax savings in retirement.

1996: Implemented a disability insurance program to protect the family's financial security against loss of income in case of disability.



Randy Smith,
Certified Financial Planner

4 Years

A SENSE OF ADVENTURE AND LOVE OF THE OUTDOORS define this Victoria, B.C. family. When Jim was launching J. H. Reed and Associates Ltd., his management consulting firm, he found the thrill of starting a new venture exhilarating. But leaving behind the world of company benefits and pension plans called for a reality check. Jim and Elaine were looking for professional help to assess their financial situation and develop a long-term plan. And they found it through Randy Smith, a representative from Investors Group. "I've known Randy Smith for a long time. I have tremendous faith in him and trust his experience," says Jim.

With the challenges of running a business, the demands of an active family life and their volunteer commitments, the Reeds place a high value on having their finances looked after. As Elaine explains, "Randy has helped us in so many ways. He even has the kids investing and it's wonderful for them to see their money grow too!"

Randy Smith joined Investors Group in 1987 and thrives on the high level of personal service that makes Investors Group's approach unique.

Games · Jazz Band · Hockey Gear

1996: Assisted Jim's business with cash management through an Investors Group money market account.

1997: Using an inheritance, established "In-trust" accounts for children Jessica and Matthew to pay for their post-secondary education.

1998: With the goal of buying his own car, son Matthew set up a monthly contribution program for his own Investors Group account.



Jean-Paul and Lucienne Coté

FINANCIALLY FIT

FOUND: Expert investment advice and long-term financial security.

Investors Group clients since 1987

Nature Walks

1987: Invested proceeds from a real estate sale to provide tax-advantaged income in a well-balanced portfolio of Investors Group mutual funds.

1987-1998: To make the most of their investments, the Cotés review their program regularly with representative Denis Bergeron.

1988: Began building registered investments and established a spousal RRSP for income splitting in retirement.



Denis Bergeron,
Financial Planner

11 Years

AN AD IN LOTBINIERE COUNTY'S LOCAL NEWSPAPER was how Jean-Paul and Lucienne Coté found representative Denis Bergeron and they've been satisfied Investors Group clients ever since. Living in a rural area near Sainte-Foy, a suburb of Quebec City, the Cotés were looking for personalized service. They loved that Denis would make house-calls – even on Sundays! "Other financial institutions simply were not willing to provide the level of service that we get from Investors Group," explains Jean-Paul.

Since then, the Cotés have seen their net worth grow in value, giving them the freedom to do what they enjoy. A homemaker and avid volunteer, Lucienne is delighted. "Thanks to what Denis has showed us, I'm getting an income for the first time in my life. It gives me a great feeling of security."

The trust they experience in their relationship has been a great comfort. According to Jean-Paul, "We talk to Denis about everything – he is very honest and his advice has always been right on the mark."

An Investors Group representative for 13 years, Denis Bergeron makes valued advice and personalized service his priority.

Country Skiing · New Car · Family Visits

1991: Rebalanced the Coté's portfolio, ensuring that their investments continue to meet with their objectives.

1994: The Cotés transferred their registered assets to a Registered Retirement Income Fund, providing them both with an income.

1998: Started planning their estate with the goal of preserving the Coté's wealth as an inheritance for their family.

Financial Review

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Management's Discussion and Analysis Highlights

SALES *Mutual fund sales and mortgage originations 2nd highest in history, insurance sales reach new record*

- Sales of mutual funds remained relatively consistent with 1997. Total sales in 1998 of $6.3 billion represents the second highest level of sales in the history of the Corporation, exceeded only slightly by sales of $6.5 billion in 1997.
- Equity and balanced funds continue to be the most significant components of sales. Balanced funds experienced substantial growth during the year, reflecting the desire of investors to share in market growth while at the same time limiting risk.
- Insurance sales of $18.7 million increased 30.3% in 1998. The value of new policies sold during the year was equivalent to that of the sixth largest term life insurer in Canada.
- Mortgage originations in 1998 and 1997 were one billion dollars. Over 85% of these originations were sourced with the assistance of our representatives.

MUTUAL FUND ASSETS PER REPRESENTATIVE *Increased 9.2% during 1998 and reached a record $9.5 million*

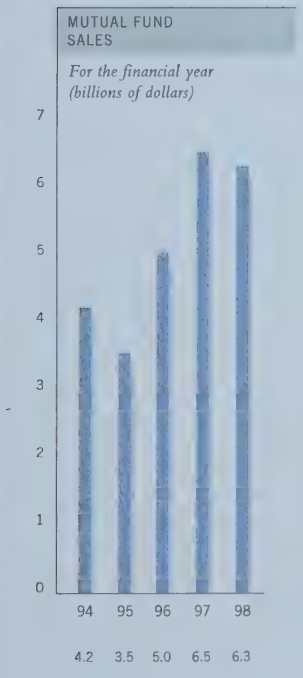
- Mutual fund assets per representative reached their highest level in the Corporation's history during 1998.
- This reflects the increase in the scope of products and services, the continued development of the Corporation's training process, and the utilization of sophisticated personal financial planning software to better assist representatives in advising clients.
- Another critical factor in increasing assets per representative was the continued improvement in the retention of experienced representatives. The number of representatives with more than four years experience grew by 16.6% to 1,985 during 1998 and represents 52.6% of the salesforce.

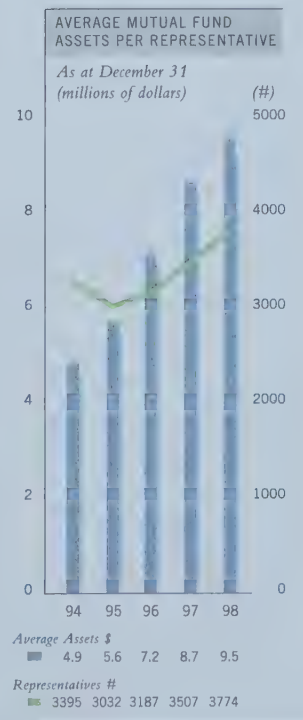
NON-DISTRIBUTION EXPENSE RATIO *Improved 14.7% or 5 basis points, target achieved two years early*

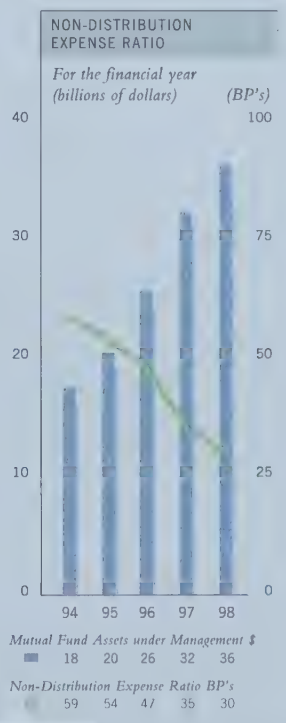
- The Corporation monitors its non-distribution costs which are controlled through the management of fixed costs, improved productivity, and effective and continual investments in technology.
- Non-distribution costs have decreased significantly from 59 bps to 30 bps of average mutual fund assets under management over the five year period and decreased 5 bps or 14.7% in the current year.
- The level of 30 bps was achieved two years ahead of the target date set by the Corporation in its strategic plan.
- The Corporation's strategic plan also includes initiatives designed to increase the proportion of expenses which support distribution activities and its representatives. Currently, 61% of total expenses are related to distribution activities, up from 49% five years ago.

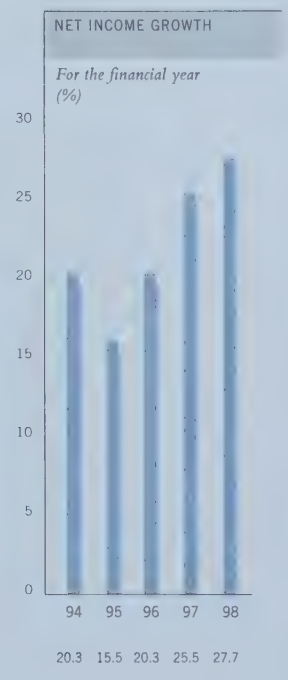
NET INCOME GROWTH *A record at 27.7%*

- Earnings increased 27.7% in 1998, the highest increase in the Corporation's history and the seventh consecutive year of growth of 15% or greater.
- Fee income increased 17.9% over 1997 and represents 87.8% of gross revenue. This was primarily a result of the higher level of mutual fund assets under management. Near record mutual fund sales and low rates of redemption contributed to the increase in assets under management of $3.8 billion.
- ROE for 1998 was 23.8%, compared with 21.1% in 1997.
- The rate of return on shareholders' investment was nearly 18.5% for 1998 and the average compound rate of return during the most recent five year period was 19.5%.









Management's Discussion and Analysis
of Financial Condition and Results of Operations

COMPARISON OF 1998 WITH 1997

Highlights of Operating Results

In 1998, Investors Group Inc. achieved record net income of $188.3 million, an increase of 27.7% from 1997 earnings of $147.5 million. This rate of increase is the highest since 1987 and is reflective of the continued growth in the Corporation's revenues and effective control of expenses. On a per-common-share basis, net income amounted to $.89 per share compared with $.70 in 1997 (Chart 1).

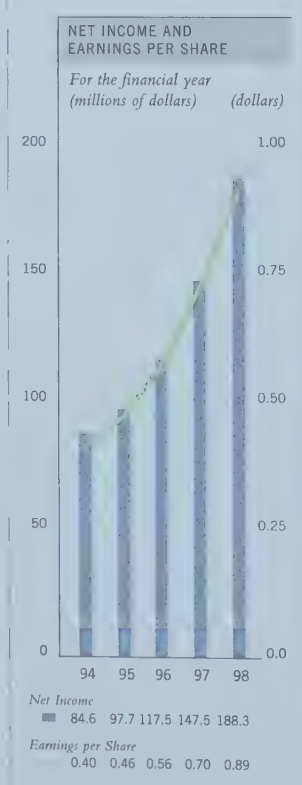
Fee and investment income totalled $975.0 million, an increase of 14.5% from 1997. Operating expenses incurred in the earning of fee and net investment income amounted to $605.3 million in 1998, compared with $547.5 million in 1997. Excluding commissions, these expenses, as a percentage of average assets under management, amounted to .73% in 1998, compared with .74% in 1997. This decline in the ratio of expenses to average assets reflects Management's effective monitoring and control of expenses.

Shareholders' equity increased to $850.9 million as at December 31, 1998 from $747.2 million at December 31, 1997. Return on average common equity was 23.8%, compared with 21.1% in 1997.

During 1998, the quarterly dividend per common share was increased to 10.5 cents or 42 cents on an annualized basis. Quarterly dividends per common share have increased more than six fold since the initial dividend of 1.56 cents was paid on January 30, 1987.

CHART 1

NET INCOME AND EARNINGS PER SHARE



THE FINANCIAL SERVICES ENVIRONMENT

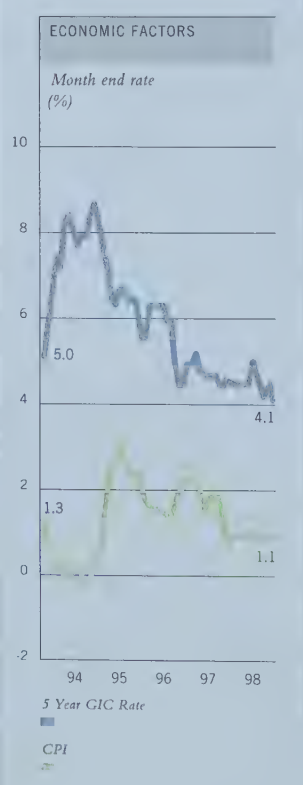
The financial services industry has experienced significant growth as well as substantial change during the past decade. Industry growth has been fueled by a number of factors including: changes in investment habits, the increasing ease of investment in capital markets, an expanded knowledge of investment products by the general public, and changing demographics. In particular, demographics have had a substantial impact on increases in the size of the market as baby boomers are reaching their prime saving and investment years.

In response to a changing and expanding market, the level of competition in the industry has increased substantially. A range of domestic and foreign service providers including banks, financial planners, investment dealers, insurance companies and others, are all seeking to provide a comprehensive range of services. These services are designed to meet clients' overall needs and objectives, instead of focusing on isolated and distinct product offerings. This trend is a result of the broadening of clients' needs and their increasing sophistication, as well as industry deregulation, which increasingly has allowed market participants to compete in related industries within the financial services sector. This contrasts with the activity in the industry several years ago when the focus was on the offering of individual products to clients by different providers.

In addition to expanding the array of financial services and products which companies offer, deregulation has also allowed companies to broaden their channels of delivery of services and products in order to attract clients. The Corporation has recognized the competitive implications of these trends and has enhanced its offerings of financial services and products. The Corporation has been quite successful in this effort due in large measure to its comprehensive financial planning approach. Currently, mortgages, insurance products, and other financial products all perform an important role in enhancing the relationships that Investors Group is building with its clients. These types of products and

CHART 2

ECONOMIC FACTORS



services complement the Corporation's mutual fund and investment certificate product offerings.

Within the financial services sector, the mutual fund market has continued to assume a more prominent role. The mutual fund market itself has experienced substantial growth during the past decade. During 1998, industry assets under administration increased by $43.5 billion to $326.6 billion (as reported by the Investment Funds Institute of Canada). This rate of growth in assets reflects a continuation of significant levels of sales combined with relatively low rates of redemption.

This rate of growth in assets is related to several factors, the most predominant of which is a continuing environment of low interest rates (Chart 2). In addition, the positive impact of demographics on the financial services industry and the expansion in the number of financial services companies selling mutual funds has continued to fuel the growth of mutual funds.

During 1998, the level of industry sales decreased slightly to $121.6 billion from $128.6 billion in 1997 while redemption rates remained relatively low. Sales were strong early in 1998, but were affected by substantial market volatility in the June to September period. During this period, equity markets in Canada decreased in value by in excess of 30% which had a significant effect upon the levels of new investment into mutual funds. However, inflows to mutual funds returned to near previous levels during the latter part of the year as markets recovered. Most analysts predict that the industry's long-term growth will continue in an environment of low inflation and low interest rates and that, by the year 2007, total fund assets under administration may well exceed $700 billion.

During the year, sales of Investors Group's mutual funds remained relatively consistent with 1997. Total sales in 1998 of $6.3 billion represents the second highest level of sales in the history of the Corporation, exceeded only slightly by sales of $6.5 billion in 1997. This performance represents a decrease of only 3.3% as compared to 5.4% which was the rate of decrease for the industry. In view of the significant market volatility during the year, this performance was very encouraging. In addition, throughout the June to September period, when the equity markets in Canada experienced

TABLE 1: SALES OF FINANCIAL PRODUCTS AND SERVICES

(in thousands of dollars)	1998	1997	Increase (Decrease)	Change
MUTUAL FUNDS				
Investors Master Series™				
Equity	$2,545,678	$2,992,974	$ (447,296)	(14.9)%
Balanced	1,182,570	1,150,953	31,617	2.7
Fixed income	775,434	748,929	26,505	3.5
Money market	899,017	736,138	162,879	22.1
	5,402,699	5,628,994	(226,295)	(4.0)
Partner funds				
Equity	307,843	450,279	(142,436)	(31.6)
Balanced	524,535	380,131	144,404	38.0
Fixed income	60,898	8,335	52,563	N/M
	893,276	838,745	54,531	6.5
	6,295,975	6,467,739	(171,764)	(2.7)
Pooled Pension	–	45,676	(45,676)	N/M
	$6,295,975	$6,513,415	$ (217,440)	(3.3)%
Mortgage originations	$ 958,963	$1,001,634	$ (42,671)	(4.3)%
Deposits	$ 78,225	$ 93,537	$ (15,312)	(16.4)%
Insurance (annualized premiums)	$ 18,715	$ 14,359	$ 4,356	30.3 %

N/M – not meaningful

substantial volatility, redemption rates for the Corporation remained relatively consistent with prior periods. This again confirmed the importance of the efforts of the Corporation's representatives to ensure that clients continue to focus on long term investment objectives and do not overreact to short-term market volatility.

Table 1 provides an analysis of the levels and mix of sales of financial products and services by the Corporation during 1998 and 1997.

Equity and balanced mutual funds continue to be the most significant components of sales. To a large extent this reflects individual investors' continued desire to participate in equity markets in the longer term. However, during the year, the volatility in equity markets resulted in a slowing in the rate of growth in equity funds while balanced funds continued to experience significant increases in sales during this period. This is a reflection of the desire of some investors to share in market growth while at the same time limiting risk. Sales of fixed income funds experienced significant growth during the year, increasing from 11.7% of sales in 1997 to 13.3% in 1998. However, the levels of fixed income sales continue to lag those of equity and balanced funds by a substantial margin.

During 1998, sales of insurance products by the Corporation increased by 30.3% to nearly $19 million which represented the highest total of sales for insurance products ever recorded by the Corporation. Sales of mortgage products reached nearly $1 billion, which represented the second highest total in the Corporation's history. The significant levels of sales in these products are indicative of the role that a diversified product base can perform in enhancing relationships with clients. At the same time, the cross-selling of different products provides representatives with the opportunity to diversify the components of their income, especially during periods of market volatility when other financial products may not be as attractive to clients.

REVIEW OF THE BUSINESS

Investors Group offers a comprehensive package of financial planning services and investment products to its client base. This package includes a wide range of mutual funds, insurance, guaranteed investment certificates, annuities, mortgages, brokerage accommodation services for self-directed RRSP's, RRIF's, RESP's, loans for registered investments, as well as other services. This comprehensive package of products and services is provided to the Corporation's clients by its network of highly-trained and well-supported representatives who review financial objectives and develop plans with clients in order to assist them in achieving their financial goals.

Investors Group derives its revenue from a range of sources, but primarily from management fees which are charged to its proprietary group of mutual funds for investment advisory and management services. These management services include responsibility for the investment function. The Corporation also earns revenue from fees charged to its mutual funds for administrative services. These fees are generally based on the net asset values of the funds.

Investors Group derives distribution revenue in connection with charges to its account holders for the distribution of its funds by the Corporation's group of financial planning representatives, as well as in connection with the distribution of insurance and brokerage products. Additional revenue is derived through investment certificate operations, mortgage operations, as well as through fees earned in connection with providing administrative services to various parties.

Management believes that its base of assets under management is secure and that its broad range of investment products meets the varied needs and objectives of individual investors. The major focus of these products is on conservative investments which provide long-term asset growth and competitive returns. Corporate revenues are largely dependent on the total value and composition of assets under management and, therefore, fluctuations in financial markets will affect revenues and results of operations. However, Management believes that its distribution network of well-qualified financial planners, combined with its strategy of assisting clients in developing long-term conservative investment goals, will help it withstand any downward pressure on revenue resulting from market volatility.

There are three major components of the Corporation's business which must be successful if the Corporation is to remain a leader in the financial services industry: its distribution network of financial planning representatives, the investment management function, and the administrative services which are provided to clients.

Financial Planning Representatives

The first component involves a distribution network of financial planning representatives associated with 100 offices located in various centres across Canada. This group of highly-trained and well-supported representatives has been an important aspect of the Corporation's success.

Representatives meet regularly with clients to develop and review their personal financial plans. These plans are based for the most part on a conservative investment philosophy that advises clients to pursue stable longer term returns combined with reasonable levels of risk. Representatives also provide clients with high levels of ongoing service which is another key component of the Corporation's success. The effectiveness of this approach has been demonstrated by consistent levels of sales and by the fact that the redemption rates for the Corporation's funds are among the lowest in the industry.

An important aspect of this component is the compensation which is paid to representatives. Compensation is comprised of commission income as well as an asset retention bonus which is paid to representatives in connection with the servicing of clients and the retention of client assets. In addition, this aspect of the compensation structure assists in ensuring that the goals and objectives of representatives are properly aligned with those of the Corporation and its clients.

As a result of increases in the complexity and in the number of financial products and services, as well as the introduction of more sophisticated financial planning techniques, it is essential that the Corporation's financial planning representatives are properly trained and supported. In this respect, during the past several years, the Corporation has allocated an increasingly significant amount of financial resources to training. The training of representatives is an ongoing process that begins immediately upon their association with the Corporation. Initial training is provided in the field by Region and Division Managers. The training process is supported by a group of specialists who provide representatives with comprehensive training in financial planning techniques. In addition, the training process focuses on educating representatives on all aspects and features of the Corporation's products.

During 1998, the Corporation continued to emphasize the importance of the training function through the ongoing development of the Investors Group Institute. The purpose of the Institute is to provide ongoing comprehensive training and education programs to the Corporation's representatives, as well as to its employees. To enhance its ability to provide training in financial planning, Investors Group Institute has established a relationship with a Canadian university and with other providers of training.

As part of its overall training strategy, the Corporation strongly encourages its representatives to pursue the Certified Financial Planner designation. Recent initiatives throughout the financial services industry have focused on enhancing levels of training for financial planners and introducing uniform qualification requirements in connection with the utilization of the "financial planner" designation. Management is very supportive of all of these efforts and continues to strongly support representatives in the pursuit of their professional designations in this area.

Another important component of the success of representatives is the services which are provided to representatives. During 1998, the Corporation continued to expand Investors Group Advantage, the business system which provides representatives with laptop computers and internally developed and customized software. This system is designed to increase the efficiency of representatives and to allow them to enhance the levels of service which they provide to clients. The initiative also provides representatives with the ability to download and analyze client data and account information on an ongoing basis in order to further enhance client service levels as well as the financial planning process.

Another important component of service support is the Contact Centre which has been established to provide representatives with service assistance through telephone or electronic mail. The Contact Centre provides representatives with access to highly trained service representatives who provide information on client portfolio and product-related issues.

During the year, the Corporation continued to emphasize the importance of representative productivity and efficiency levels through a number of Corporate initiatives. One such initiative involved an increase in the number of associate representatives as well as a program for the development of sales assistants. Associate representatives are generally less-experienced planners who work with experienced representatives in order to assist them in servicing their client bases. The impact of this type of arrangement has been to contribute to the overall productivity of representatives, as well as to generally enhance client service levels. Sales assistants also contribute to representative productivity and efficiency through the performance of a number of administrative and client-related tasks for representatives. However, they do not participate in the actual sales and advisory processes.

As of the end of 1998, the Corporate network of financial planning representatives totalled 3,774, as compared with 3,507 at the end of 1997. This significant increase

primarily reflects a continuing improvement in the rate of retention of existing representatives which has been experienced by the Corporation during the past several years. In 1998, the retention rate for representatives, as a percentage of the total number of representatives, declined slightly from the prior year but was the second highest level of retention during the past 20 years. In addition, during the year the proportion of representatives with in excess of four years experience continued to increase. This proportion increased to 52.6% from 48.7% in the prior year (Chart 3).

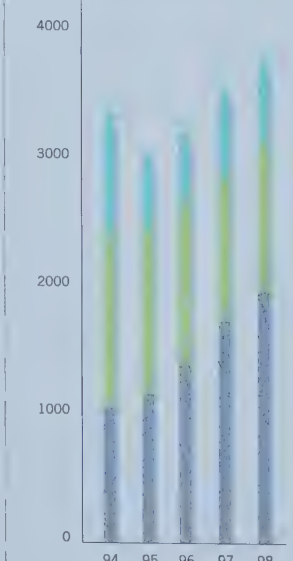
The Corporation is recognized throughout the financial services industry for its highly developed network of qualified financial planning representatives. Therefore, there is constant pressure on the Corporation to retain its representatives and to respond to recruiting initiatives from other financial services companies. Management believes that it has adequately responded to these challenges through: revisions to compensation levels, increases in training and support, and increases in the scope and diversification of product offerings. The success of the Corporation's recent initiatives in this area is clearly reflected in the high rate of retention of representatives during the past several years. Management is confident that it will continue to attract and retain highly qualified professionals as it further improves the quality and enhances the scope of its product shelf.

During the year, the Corporation continued its focus on the development and retention of new representatives. During the past several years one of the key initiatives for the Corporation has involved an emphasis on the recruitment of new representatives with backgrounds in financial services, or in related industries or professions. The backgrounds and skills that these individuals possess significantly increase the likelihood that they will be able to develop successful relationships with clients. The proportion of recruits with these types of backgrounds has remained in excess of 50% throughout 1998. The Corporation has established a target of 70% for this measure which is to be achieved by the year 2000.

CHART 3

REPRESENTATIVES BY YEARS OF EXPERIENCE

As at December 31



	94	95	96	97	98
0-1	924	553	561	646	644
1-4	1395	1282	1196	1158	1145
4+	1076	1197	1430	1703	1985
Total	3395	3032	3187	3507	3774

Investment Management

The second key component of the business is the investment management function, which provides the Corporation's clients with a high level of expertise in ensuring that fund investments are well-managed and of superior quality. Investors Group's fund managers focus on providing clients with reasonable returns while restricting risk to relatively low levels. This function has been instrumental in ensuring the success of one of the basic tenets of the Corporation's financial planning philosophy which is to advise clients to save and to allocate their assets for investment diversity, increased returns, and retirement planning.

To attain solid performance results and ensure the long-term success of the investment management function, the Corporation employs experienced and highly-trained portfolio managers. The Corporation has adopted a team management approach which ensures that fund managers are operating in a manner which is consistent with the Corporation's investment philosophy and with defined codes of conduct. This approach also ensures that managers are complying with fund investment objectives. In addition, management oversight of external advisors ensures that their activities are consistent with Corporate investment philosophy and with fund prospectuses.

The Corporation has also established a number of relationships with external investment advisors in order to provide its mutual funds with the investment advisory services of other investment management firms. These relationships provide the Corporation's clients with diversity in the investment advisory function. This diversity provides a range of investment management styles in order that all clients are able to meet their objectives within the Corporation's offerings of funds.

Administrative Services

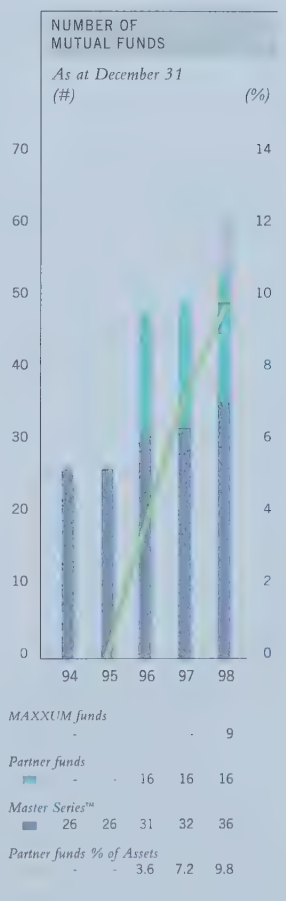
The third key component of the business involves the administrative services which are provided by the Corporation to its clients. These services include ensuring that client accounts are properly maintained, transactions are appropriately recorded, and client orders are accurately

and expeditiously executed. Recently, initiatives have been undertaken which are designed to enhance the quality of client account statements. These enhancements to client statements are reflected in the 1998 year-end portfolio statements. These enhancements involve a number of revisions to statements which will substantially increase the level of disclosure, as well as provide a consolidated view of all client investments and financial products. In addition, the Corporation is also continually upgrading client information systems in order to facilitate the provision of high levels of client service. Management believes that the combination of administrative services combined with representatives' services, provides the Corporation's account holders with one of the highest overall levels of client service in the industry.

CORPORATE STRATEGY

The Corporation continuously reviews its Corporate strategy to ensure that it is appropriate for the current environment as well as for anticipated changes to the environment. It also seeks to ensure that the interests of shareholders, representatives, clients, and employees are as closely aligned as possible. The strategic plan focuses upon four key themes. One of these is a continued emphasis on the delivery of financial planning advice, services, and products through a network of well-trained and supported professional representatives. A second key aspect of the plan is a recognition of the need to broaden and diversify the products which are offered by the Corporation to a broad spectrum of its clients in response to an increasingly competitive environment in the financial services industry. The third aspect of the plan is the maximization of returns on business investments by: capitalizing on economies of scale, controlling expenditures, and focusing resources on initiatives that have direct benefits to clients and representatives. The fourth aspect of the plan is the use of the Corporation's mutual fund manufacturing capabilities in order to access other distribution channels such as London Insurance Group Inc.'s (London Insurance Group) salesforce.

CHART 4



THE SCOPE OF PRODUCTS AND SERVICES

As discussed, one of the Corporation's major objectives is to provide its clients with a broad range of financial services and products which will meet their needs and objectives. During the past several years, the Corporation has implemented several key initiatives which are designed to ensure that it continues to offer products that are sufficiently broad in scope and diversity.

Mutual Funds

The Corporation provides clients with an extended range of mutual fund products as well as access to a broad spectrum of mutual funds. During 1996 the Corporation introduced a number of new funds to its group of product offerings in order to provide the Corporation's clients with access to a range of investment advisory services (Chart 4). These funds involve the participation of several well known and highly respected investment advisors including international investment advisors from Rothschild Asset Management Limited and Merrill Lynch Asset Management LP. Domestic investment advisory services are also provided to these funds by Sceptre Investment Counsel Limited and Beutel, Goodman & Company Ltd. Both of these companies have excellent reputations in institutional pension fund management in Canada.

During 1998, the Corporation designated these funds as partner funds in order to clearly distinguish them from those funds which are managed by its own in-house investment advisors. These funds are distributed exclusively by the Corporation and have been organized in a manner similar to that of all of the funds which are managed internally. As a result of this structure, clients benefit from the Corporation's internal expertise in distribution and administration and the Corporation maintains its internal operating margins in fund operations. Management believes that the addition of external investment advisors in this manner has been a very effective method of providing clients with access to an increased scope of services as well as a range of investment advisory services

and approaches to investment management. As a result, the Corporation plans to continue to examine new opportunities for additional relationships with external parties.

During the year, the Corporation designated those funds which are managed by its own in-house investment advisors as the "Investors Master Series™". The Corporation continues to expand the number and the range of the funds which are managed by its own in-house investment advisors. During 1998, the Investors Canadian Small Cap Fund II, the Investors Canadian Enterprise Fund, the Investors Canadian Balanced Fund, and the Investors Global Science and Technology Fund were all added to the Master Series™. The addition of these funds is further evidence of the Corporation's efforts to provide diversity in its offerings to its clients. During the past three years, the Corporation has added a number of funds which focus on a range of opportunities in both foreign and domestic markets, as well as in different industry sectors.

During the past three years, a total of twenty-six new funds have been offered to clients. These funds have attracted a total of $5.6 billion in assets during this period. Management believes that the addition of these funds has substantially enhanced the scope and the diversity of its clients' investment opportunities and will significantly increase the attractiveness to clients of the Corporation's product offerings. The Corporation continues to examine opportunities to add new funds which will provide further diversification to its product offerings.

International Investments

Recent trends in fund management and in investing have focused on opportunities in overseas markets. Investors Group has consistently demonstrated initiative in identifying overseas investment opportunities and will continue to do so in the future. The Corporation currently offers a total of 14 international funds, including two funds which invest in emerging markets.

In order to ensure that opportunities for overseas investments are maximized, Investors Group operates a European subsidiary located in Ireland which manages a majority of the Corporation's overseas fund assets. An additional objective of this subsidiary is to provide certain of the Corporation's funds which invest primarily in North American companies with timely and qualified advice on global investment developments and their impact on these funds' portfolios.

Expertise in portfolio management has also been enhanced through relationships with several external advisors including Carlson Investment Management Far East Ltd. and Murray Johnstone International Limited. These advisors provide portfolio management advice to the European subsidiary related to several of the Corporation's overseas funds. Additional international investment advisory expertise has also been provided through agreements with Rothschild Asset Management Limited and Merrill Lynch Asset Management LP, as well as with AIB Govett Asset Management Limited of London, England.

Mortgage Products and Services

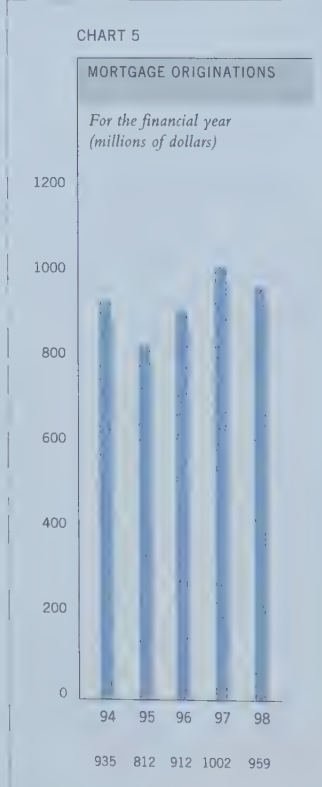
Residential mortgages are another important financial product offered by the Corporation, which strengthens its relationship with clients.

Investors Group's mortgage operations provide origination and servicing to Investors Mortgage Fund and to related corporations that invest in mortgages. These include Investors Group Trust Co. Ltd. (Investors Group Trust), the Corporation's trust company subsidiary, and Investors Syndicate Limited, an investment certificate subsidiary. The size of Investors Mortgage Fund requires the Corporation's mortgage operations to provide a steady supply of high-quality mortgage investments. In addition, the Corporation's mortgage operations have increased the level of origination and servicing activities provided to external parties who are investing in mortgages.

CHART 5

MORTGAGE ORIGINATIONS

For the financial year (millions of dollars)



During 1998, the Corporation's origination function sourced mortgages with a total value of almost one billion dollars (Chart 5). Most of these mortgages were syndicated to external parties through the Corporation's mortgage banking operation. However, the administration and servicing of these mortgages will continue to be provided by the Corporation. Also, during the year the Corporation entered into an agreement with London Insurance Group and the Great-West Life Assurance Company (Great-West Life) to

administer and originate residential mortgages. As a result, a total of $5.8 billion in mortgages is now administered by Investors Group on behalf of external parties, which combined with its own portfolios, makes the Corporation the eighth largest servicer of mortgages in Canada.

During the year, the Corporation exited the commercial mortgage business by selling its portfolio to a Canadian commercial bank. The Corporation intends to focus on residential mortgages which are of a high credit quality and can be sourced through its representatives.

As a result of their close involvement in the development of clients' financial strategies, referrals by representatives of clients to the mortgage operation are viewed as important to sourcing a steadily increasing number of high-quality mortgage investments. To this end, the Corporation employs a total of 62 mortgage specialists in its origination function. These individuals originate mortgages in key residential markets with the cooperation of financial planning representatives.

The success of this program is evidenced by the significant proportion of residential mortgages which have originated from the existing client base and the corresponding improvement in the levels of impaired loans in both Corporate and fund portfolios. During 1998, the amount of residential mortgage product sourced with the assistance of representatives decreased slightly to 84.5% of total residential mortgages, down from 86.4% in the prior year.

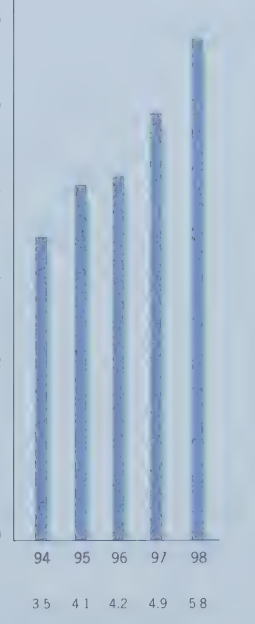
Insurance Products

The Corporation has been involved in the distribution of insurance products for a number of years. Several years ago, an agreement was entered into between Great-West Life and the Corporation's insurance distribution subsidiary: I.G. Insurance Services Inc. This agreement significantly expanded the scope of insurance products offered to Investors Group's clients. I.G. Insurance Services Inc. has also entered into agreements with The Canada Life Assurance Company and with Aetna Life Insurance Company of Canada to distribute several additional insurance products. Through these agreements, the Corporation is able to offer a comprehensive range of term, universal, whole life, disability, and group insurance products.

CHART 6

SALES OF INSURANCE CASES PER REPRESENTATIVE

For the financial year



During the year, the Corporation continued to increase the number of new insurance policies sold as well as the overall number of policies in force. The value of new policies placed by the Corporation equates to a level of new business equivalent to that of the sixth largest term life insurer in Canada. During 1998, the Corporation's representatives were responsible for the sale of in excess of 60% of all new term insurance policies underwritten by Great-West Life. The average number of insurance policies sold by individual representatives also increased during the year. The average number of policies sold increased by 18% to 5.8 per representative from 4.9 in 1997 (Chart 6). Clearly, this is an aspect of the Corporation's distribution business which continues to demonstrate significant growth and has substantial potential for the future.

The Corporation has also enhanced its insurance distribution capabilities through the development of a network of 36 insurance specialists who are located in regional offices. These specialists assist representatives with the selection of appropriate insurance products for clients. In addition, distribution has been further enhanced through increases in the number of representatives obtaining insurance licences. In 1998, the proportion of representatives maintaining insurance licences increased to 85% from 84% in 1997.

Additional Products and Services

The Corporation believes that self-directed retirement savings plans and retirement income funds are key components in the development of comprehensive financial plans for many of its clients. The Corporation also believes that many clients want to be able to consolidate their assets within Investors Group in order to take full advantage of the advice and services offered by its representatives and securities portfolio specialists. To facilitate this, the Corporation maintains a securities brokerage operation: Investors Group Securities Inc., which provides these services on an accommodation basis. Since its introduction several years ago, this brokerage has increased its assets under administration to nearly $600 million. An important consideration for the Corporation is the percentage of representatives whose clients utilize

the services of the brokerage. As at the end of 1998, approximately 65% of representatives had clients who also maintained accounts with Investors Group Securities Inc., an increase from 50% in the prior year. This level of penetration is expected to increase further in 1999.

Segregated funds are another financial product which the Corporation is currently adding to its base of products. A segregated fund is technically an insurance product, although it is structured such that it has many characteristics which are similar to mutual funds. Segregated funds offer investors a guarantee related to a certain portion of original capital invested. As a result of this unique characteristic, these funds have experienced substantial growth in Canada over the past several years. To address this growing market the Corporation is planning the introduction of several segregated funds early in 1999 which will be distributed solely by Investors Group and will be underwritten by Great-West Life. The investment component of these products will be managed by Investors Group.

Additional initiatives are planned for 1999 in order to further enhance the scope of the products and services offered to clients. These initiatives which include cash management and estate planning, will provide representatives with substantial opportunities to provide access to a broader range of products and services offered by the Corporation.

The Corporation continues to provide its clients with guaranteed investment certificates which are offered through Investors Group as well as certificate products offered by a range of other financial institutions. Other products and services include annuities, loans for registered investments and tax preparation services.

SIGNIFICANT DEVELOPMENTS

During 1997, the Corporation acquired a minority interest in Great-West Lifeco Inc. This investment was made in connection with Great-West Life's acquisition of London Insurance Group. The acquisition of London Insurance Group by Great-West Life, and the corporate alliance which has arisen as a result, provides Investors Group with the opportunity to enhance its capability to fully achieve the four key objectives of its Corporate strategy.

Over time, the Corporation should significantly enhance the distribution channel for its own investment fund products through the development of common systems and processes with Great-West Life and London Insurance Group. The Corporation should also be in a position to realize a greater return on the investment which has been made in distribution, technology, and support. The alliance should also provide Investors Group with an opportunity to distribute a greater number of insurance-based products. Cost efficiencies will also be realized through the combination of certain back office functions and the establishment of common technological platforms across a wide range of operations.

During the current year, the Corporation has begun to recognize the benefits of this alliance. Through the provision of origination and administration services for London Insurance Group mortgages and fund accounting services for both Great-West Life and London Insurance Group segregated funds, the Corporation will begin to realize greater economies of scale which will contribute to the cost effectiveness of its operations in these areas.

The integration of information services functions among Investors Group, Great-West Life, and London Insurance Group began to provide benefits in 1998 through the development of common technology platforms and the negotiation of improved rates from common suppliers. Benefits will be further realized in 1999 as computer operations for Investors Group, Great-West Life, and London Insurance Group are consolidated at a single location and managed by a common management team. The achievement of these synergies will assist in the realization of a number of objectives with respect to efficiencies and cost savings. Objectives will be achieved through: the utilization of shared services, the utilization of common systems, the minimization of overhead, as well as through an enhanced capability to manage technology capacity effectively for all three companies.

The agreement to purchase the MAXXUM group of mutual funds from London Insurance Group in 1998 was another key development in this alliance. The acquisition provides the Corporation with the investment management and the administrative operations related to the MAXXUM brand of mutual funds, as well as a relationship with the segregated funds sold by London Life which invest in MAXXUM funds. It also provides the Corporation with a basis for utilizing its expertise and scale in connection with the manufacturing and the distribution of investment products. This will benefit both London Insurance Group and Great-West Life, as well as provide benefits internally within the Corporation.

The market for segregated funds has grown dramatically over the past several years. The strategic alliance between the Corporation and Great-West Life provides an opportunity for the Corporation to participate in the distribution

and the manufacturing of additional products. In this regard, a new series of segregated funds will be distributed exclusively by Investors Group.

All of these developments in this area are reflective of the Corporation's intention to align with Great-West Life and with London Insurance Group. Through working together with the other companies and drawing upon their core competencies and corporate strengths, the Corporation will be able to continue to achieve its objective of developing significant scale and becoming increasingly competitive and cost-effective. During 1999, it is expected that a number of additional initiatives will be undertaken which will involve synergies of this nature and the further pursuit of efficiencies and economies of scale.

THE YEAR 2000 ISSUE

The Corporation has undertaken an enterprise-wide initiative to address the Year 2000 issue. A comprehensive program has been developed and implemented in order to identify and remediate all internal systems which require adjustment. In addition to the remediation of internal systems, the program also includes a process which involves an ongoing assessment of the readiness of business partners, suppliers, and other external parties who conduct business with the Corporation. Further, the investment management function has implemented a program designed to assess the readiness of all companies which are included within the investment portfolios of the Corporation's mutual funds.

The Corporation's objective is to mitigate the risks which are presented by the Year 2000 problem. The Year 2000 problem presents a significant risk to the Corporation as the Corporation is dependent upon information systems and on technology. In view of the nature of the problem, it is not possible to have certainty that all aspects of the Year 2000 issue will not materially affect the Corporation, particularly those related to interactions with external parties. In connection with this, the Corporation is engaging in a broad range of risk mitigation activities. One of these activities involves the development of contingency plans for the Year 2000 issue. These plans are being developed to mitigate the effect of potential problems and to ensure the continuity of operations.

The Corporation has established a structure and a process to address the Year 2000 issue which includes a project team and a steering committee that oversee the management and conduct of the project. In addition to regular meetings of the Steering Committee, the reporting of project progress in comparison to defined objectives is made to the Executive Management Committee and to the Board of Directors.

The Year 2000 compliance process includes four major phases: inventory, assessment, remediation, and implementation and testing. The inventory phase is critical in ensuring the completeness of the scope of the project while the assessment phase is focused on identifying where remediation efforts need to be directed. The implementation and testing phase focuses on ensuring the quality and the thoroughness of testing, including both unit testing as well as integration and end-to-end testing, in order to ensure that all systems continue to function and to interface among each other in an appropriate fashion.

The remediation and the implementation and unit testing phases for virtually all systems were substantially complete as at December 31, 1998. Some additional remediation and unit testing will be conducted during the first quarter of 1999. Most of the year will be devoted to additional testing, which will primarily be integration testing.

As discussed, the impact of the Year 2000 issue also depends on the readiness of business partners, suppliers, and other external parties. This group includes: financial institutions, payment systems, depositories, financial exchanges, suppliers, and providers of certain services such as information technology. The Corporation has implemented a process in order to assess the readiness of business partners, suppliers, and other external parties. All parties which have a significant relationship with the Corporation have been contacted in order to determine their Year 2000 readiness. This process is ongoing.

It is expected that the cost of implementing this initiative will be approximately $4.6 million. As at December 31, 1998, costs incurred to date totalled $2.5 million. The costs required to complete the project during 1999 are estimated to be $2.1 million.

REVENUE

Fee Income

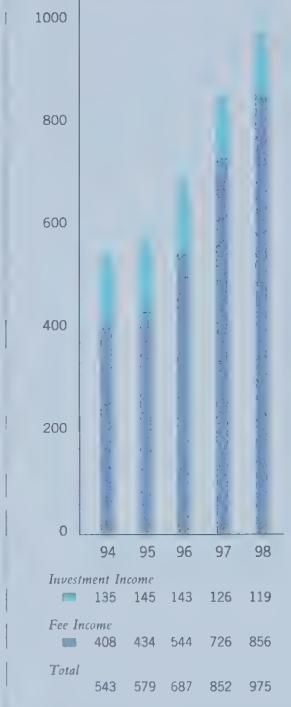
Investors Group earns management and administration fee income and distribution revenue in the conduct of its core business activities, which are primarily related to the distribution and management of 61 mutual funds, including nine funds which are managed by a subsidiary: MAXXUM Fund Management Inc. The Corporation also derives fee revenue from the investment management and administrative services it provides to its other managed accounts.

Fee income represented 87.8% of gross revenue in 1998, compared with 85.2% in 1997. This reflects the significant increase in assets under management and the associated fee revenues which were realized during the year. Total fee income rose to $855.8 million, an increase of $129.9 million or 17.9% over 1997. Table 2 provides a comparative analysis of the Corporation's fee income for the years 1998 and 1997.

CHART 7

FEE AND INVESTMENT INCOME

For the financial year (millions of dollars)



Management Fees

Management fee revenue is derived primarily from services provided to the Corporation's mutual funds. Current annual fees for management services range between 1% and 2.25%. As management fee revenue is directly based on assets under management, fee revenue is positively impacted by increases in assets. During 1998, management fee revenue increased by $96.7 million, or 17.2%, to $657.6 million. This increase in management fee revenue reflects the increase in mutual fund assets under management.

A key aspect of achieving high levels of assets under management, and thereby providing stable levels of fee revenue, is to ensure that rates of redemption are maintained at low levels. During 1998, Investors Group's funds experienced a redemption rate of 10.0%. This rate is among the lowest in the industry and is substantially below the industry average of 30.0% (excluding Investors Group). The low rate of redemption, combined with strong sales, resulted in the second highest level of net sales of mutual funds ever achieved by the Corporation.

Investment management is critical in ensuring that returns are maximized and that the asset values of fund portfolios are maintained at high levels, thereby enhancing management fee revenues. During 1998, investment management services provided reasonable preservation of capital in the Corporation's mutual funds despite the declines in the Canadian market and in other financial markets.

Table 3 provides a comparative analysis of mutual fund assets under management as at December 31, 1998 and 1997.

Administration Fees

The Corporation provides administrative and related services to its group of mutual funds through its subsidiaries. During 1998, the Corporation earned a total of $128.8 million in revenue in connection with the provision of administrative and related services, as compared to $105.9 million in 1997. This increase is mainly attributable to the increase in the levels of mutual fund assets under administration.

The Corporation's trust company subsidiary: Investors Group Trust, earns fees from several sources but primarily from trustee fees earned in connection with the administration of the Corporation's mutual funds. These fees fluctuate in relation to the level of assets under administration in both the mutual funds and the other managed accounts. In 1998, trust fee revenue increased by 16.4% to $19.1 million from $16.4 million in 1997.

The Corporation also earns revenue in connection with services provided to Great-West Life for segregated fund accounting and for mortgage origination and administration services provided to London Insurance Group.

TABLE 2: REVIEW OF FEE INCOME

(in thousands of dollars)	1998	1997	Increase (Decrease)	Change
Management	$ 657,619	$ 560,955	$ 96,664	17.2%
Administration	128,810	105,854	22,956	21.7
Distribution	69,322	59,078	10,244	17.3
Total fee income	$ 855,751	$ 725,887	$ 129,864	17.9%

Distribution Fees

Distribution fees are earned by the Corporation in connection with the financial products it distributes and primarily in connection with mutual fund products. One component of these fees is redemption fees or back-end loads on equity, balanced, and fixed income funds which are payable on a declining rate basis where clients redeem their investments within a prescribed period of time. Front-end loads are no longer payable in most instances. The increase in distribution fees of $10.2 million in 1998 is mainly attributable to revenues earned from the distribution of insurance products, which increased nearly 40% during the year.

Investment Income

Investment income was $119.2 million in 1998. This represents 12.2% of total gross revenue as compared with 14.8% in 1997. This percentage decline reflects the substantial increase in fee revenues during the year. Investment income includes interest and dividends earned on cash and short term investments, marketable securities, and mortgage loans, as well as gains and losses on the sale of securities and the Corporation's share of earnings of an affiliate. Interest expense consists of interest on deposit liabilities, certificates, and debt.

Net investment income is the difference between investment income and interest expense. Net investment income is analyzed on a Taxable Equivalent Basis (TEB), which is the grossing up of tax-exempt income earned on certain securities to an equivalent before-tax basis. This procedure allows for a uniform measurement and comparison of the net investment income that arises from both taxable and tax-exempt sources, resulting in a better reflection of the economic yield of these assets. Table 4 details the Corporation's net investment income on a taxable equivalent basis for the years ended December 31, 1998 and 1997.

Net investment income was $78.5 million in 1998, a decrease of $12.7 million or 14.0% from $91.2 million in 1997. The primary reason for the decrease in net investment income was the decrease in average earning assets. Average earning assets were $1.28 billion in 1998, a decrease of $291 million or 18.5% from 1997, primarily due to lower deposit

TABLE 3: MUTUAL FUND ASSETS UNDER MANAGEMENT

(in thousands of dollars)		1998		1997
Investors Master Series™				
Equity	$17,067,966	47.3%	$16,035,854	49.7%
Balanced	7,887,027	21.9	6,960,026	21.6
Fixed income	5,988,627	16.6	5,886,393	18.3
Money market	803,471	2.2	589,492	1.8
	31,747,091	88.0	29,471,765	91.4
Partner funds				
Equity	1,510,266	4.2	1,240,931	3.9
Balanced	1,833,928	5.1	1,041,585	3.2
Fixed income	174,836	0.5	40,531	0.1
	3,519,030	9.8	2,323,047	7.2
MAXXUM funds				
Equity	490,219	1.4	–	–
Balanced	105,321	0.3	–	–
Fixed income	148,928	0.4	–	–
Money market	53,238	0.1	–	–
	797,706	2.2	–	–
Pooled Pension	–	–	453,480	1.4
	$36,063,827	100.0%	$32,248,292	100.0%

TABLE 4: NET INVESTMENT INCOME, TAXABLE EQUIVALENT BASIS (TEB)

(in thousands of dollars)	1998	1997	Variance
Investment income[1]	$123,941	$145,946	$ (22,005)
Interest expense	45,476	54,740	9,264
Net investment income (analyzed in Table 5)	$ 78,465	$ 91,206	$ (12,741)
Share of earnings of affiliate	13,070	-	13,070
Total	$ 91,535	$ 91,206	$ 329

[1] *Includes dividend gross-up of $17,805 (1997 – $20,175)*

TABLE 5: ANALYSIS OF NET INVESTMENT INCOME (TEB)

(in thousands of dollars)	1998			1997		
	Average Balance	Income/ Expense	Average Rate	Average Balance	Income/ Expense	Average Rate
	[1]	[2]		[1]	[2]	
Total earning assets	$1,279,561	$ 123,941	9.69%	$1,570,471	$ 145,946	9.29%
Other assets[3]	483,748			228,551		
Total assets	1,763,309			1,799,022		
Total interest-bearing liabilities	642,670	45,476	7.08%	845,596	54,740	6.47%
Other liabilities	330,742			255,413		
Shareholders' equity	789,897			698,013		
Total liabilities and shareholders' equity	$1,763,309			$1,799,022		
Net investment income		$ 78,465			$ 91,206	
Investment spread[4]			2.61%			2.82%
Investment margin[5]			6.13%			5.81%

[1] *Based on monthly averages*
[2] *Tax Equivalent Basis includes dividend gross-up of $17,805 (1997 – $20,175)*
[3] *Other assets include investment in affiliate*
[4] *Average return on earning assets less average rate paid on interest-bearing liabilities*
[5] *Net investment income divided by average earning assets*

TABLE 6: CHANGE IN NET INVESTMENT INCOME (TEB), 1998 COMPARED WITH 1997

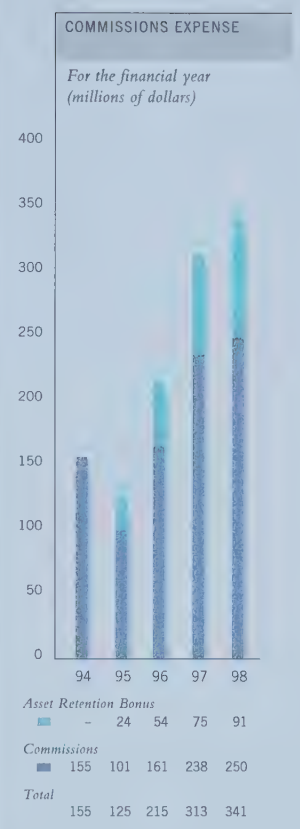
(in thousands of dollars)	Increase (decrease) due to change in:		
	Average Balance	Average Rate[1]	Net Change
Total earning assets	$ (27,035)	$ 5,030	$ (22,005)
Total interest-bearing liabilities	13,136	(3,872)	9,264
Change in net investment income	$ (13,899)	$ 1,158	$ (12,741)

[1] *Changes due to a combination of balance and rate have been allocated to rate variances.*

levels. Table 6 details the change in investment income (1998 vs. 1997).

The investment margin was 6.13% in 1998 (Table 5), which is an increase of 32 basis points from 5.81% in 1997. This increase in the investment margin can be analyzed in two components. One of these is the proportion of earning assets which are funded by interest-bearing liabilities. A decrease in this proportion to 50.2% in 1998 from 53.8% in 1997 resulted in a 25 basis point improvement in the investment margin. The second component is a higher investment spread which accounted for an increase of 7 basis points.

CHART 8



EXPENSES

Commissions

The Corporation incurs commissions expense in connection with the distribution of its financial services products and primarily in connection with its proprietary mutual funds. Commissions are earned by the Corporation's financial planning representatives at the time clients invest in Investors Group's financial services products. Therefore, the Corporation's commissions expense fluctuates with levels of sales to a significant extent. Commissions expense is also comprised of expenditures in connection with compensation provided to representatives for asset retention. This compensation is based on the levels of client assets which a representative maintains and services.

In aggregate, commissions expense increased 8.8% or $27.7 million to $340.9 million, as compared with $313.2 million in 1997 (Chart 8). The primary reason for the increase in commissions expense during the year involved expenditures in connection with retention bonuses for the servicing of clients. These payments are based on the amounts of mutual fund assets held in client accounts. During the year, the average amount of mutual fund assets increased by 17% resulting in a significant increase in this expense.

Non-Commission Expenses

Non-commission expenses totalled $264.4 million in 1998. This total includes expenditures of $24.8 million for the development and implementation of the Corporation's strategic initiatives and expenditures of $28.5 million for business process improvements.

In 1998, expenditures were incurred for strategic initiatives in support of the development and implementation of key components of the Corporation's strategic plan. These expenditures included costs incurred in connection with a range of initiatives including the launch of additional products, the support and training of representatives, the improvement of levels of client service, and the establishment and promotion of the Investors Master Series™ brand and partner brands.

Expenditures were also made in 1998 with respect to the acquisition of the MAXXUM group of mutual funds from London Insurance Group. This acquisition will allow the Corporation to share its expertise and scale in the

TABLE 7: NON-COMMISSION EXPENSES*

(in thousands of dollars)	1998	1997	Increase (Decrease)	Change
Fixed expenses	$148,641	$139,981	$ 8,660	6.2%
Investors Group Advantage	12,209	12,037	172	1.4
Total	160,850	152,018	8,832	5.8
Variable expenses	48,076	44,100	3,976	9.0
Provision for credit losses	2,118	4,649	(2,531)	(54.4)
Total expenses	$211,044	$200,767	$ 10,277	5.1

**excluding strategic initiatives, restructuring and business process improvements*

manufacturing and distribution of investment products so as to benefit both London Insurance Group and Great-West Life, as well as to realize certain strategic objectives.

The expenditures for business process improvements of $28.5 million consisted mainly of expenditures for restructuring Investors Group's activities and the rationalization of its core business. During 1998, the Corporation exited several ancillary businesses, including lending in connection with commercial mortgages and the related administration, as well as the sale of units in pooled pension funds and the related administration of the funds. Even though pooled pension fund products have been discontinued, the Corporation will continue to offer investment opportunities to pension clients through its mutual funds and through other financial products. These decisions reflect the Corporation's continued efforts to further rationalize its business lines and ensure that resources are directed to those business activities which are of the most significant value. Also, in 1998 additional expenditures were made for the restructuring of the sales management compensation structure, the integration of information technology services with Great-West Life and London Insurance Group, and other business process improvements.

Non-commission expenses, exclusive of expenditures for strategic initiatives, restructuring, and business process improvements, totalled $211.1 million during the year. This represents an increase of $10.3 million or 5.1% over 1997. Fixed costs increased by $8.8 million or 5.8% and variable costs increased $4.0 million or 9.0% (Table 7).

Variable costs are costs which fluctuate with the levels of sales, the number of representatives and clients, as well as the amount of assets under administration. Variable costs include variable compensation, distribution support costs, and costs for investment advisory services. These costs increased 9.0% in comparison to 1997, reflecting increases in volumes and related expenditures.

In seeking to control expenses, the Corporation places an emphasis on the effective management of fixed costs, improvements in productivity, and continuing investments in technology. Despite significant additions and enhancements to a range of different business and support activities over the past several years, the Corporation has continued to manage and control fixed costs. This approach reflects the Corporate objectives of balancing cost control with the need to expand the business and pursue revenue-enhancing opportunities. During the year, fixed costs for the Corporation increased by 5.8% which is reflective of the impact of a focus on cost control in an expanding business.

The largest component of fixed costs involves the compensation and benefits which are paid to employees. Since 1993, the average number of employees has remained relatively constant. During the same period, mutual fund assets under administration by the Corporation have more than doubled. The maintenance of staffing at these levels during a period of such substantial growth is the result of the Corporation's productivity initiatives and investments in technology.

A critical aspect of fixed costs is the expenditures which are made in order to support the distribution function. During the year, an important initiative has involved an expansion in the size of Region Offices. This initiative is designed to enhance and expand the office space which is available in order to assist representatives in the conduct of their activities. This expansion of Region Offices reflects a number of factors, including growth in the number of representatives, an increase in the number of sales assistants who provide support to the representatives, and enhancements made to provide more effective use of space for the conduct of business.

Additional expenditures to enhance and support the distribution function include expenditures relating to investments in technology. A critical aspect of these expenditures relates to Investors Group Advantage, the Corporation's business system for representatives. This system provides representatives with laptop computers and with advanced software tools which include state-of-the-art financial planning software and electronic access to client information through network connections. Expenditures on initiatives such as Investors Group Advantage are consistent with the Corporation's strategic plan which involves directing resources towards the conduct of the distribution function. During 1998, the ratio of distribution support costs to total costs improved to 61% as compared to the prior year ratio of 59%.

FINANCIAL POSITION

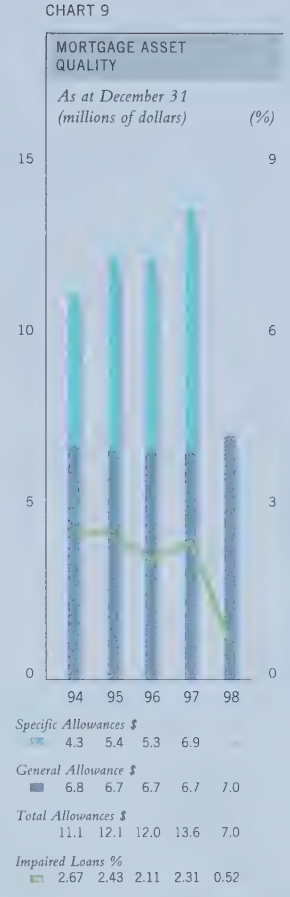
Table 8 provides a condensed version of the Corporation's balance sheet as at December 31, 1998 and 1997.

The changes in mortgage loans and term deposits are reflective of a general process of disintermediation which is affecting the financial services industry. In a low interest rate environment clients continue to prefer long-term equity investments as opposed to short-term deposits. Consequently, there is little demand for on-balance sheet products such as GIC's and term deposits which fund

mortgage investments. Other significant balance sheet items are discussed elsewhere in this report: Cash and short term investments (page 36), Investment in affiliate (page 28), Deposits and certificates (page 31) and Debentures and notes (page 36).

The Corporation's holdings of securities decreased $22.8 million or 5.8% to $370.0 million in 1998. The Corporation continually strives to ensure that its portfolio holdings are of the highest quality. In addition, the Corporation seeks to manage the market and credit risks associated with securities portfolios. Accordingly, the investment portfolio is monitored by a Senior Management Investment Committee that approves all purchases and sales. During the course of a year, this Committee reviews the portfolio to identify holdings where there has been a loss in value that is other than a temporary decline. In these situations, securities are written down to recognize the loss. Management also reviews the portfolio in order to establish appropriate and prudent allowances in instances where permanent impairment is not yet evident. The market value of the Corporation's portfolio as at December 31, 1998 exceeds cost by $129.9 million as compared with $159.9 million in 1997.

CHART 9



Mortgage loans decreased by $225.9 million or 39.3% to $348.2 million during 1998 and represent 19.4% of total assets in comparison with 32.5% in 1997. In addition to the decline attributable to disintermediation, mortgage loans also decreased as a result of the Corporation's decision to exit the commercial mortgage business. In 1998, the Corporation disposed of the remaining commercial mortgage portfolio and, as a result, the mortgage loan portfolio consisted entirely of residential loans at December 31, 1998.

The Corporation continuously reviews its credit risk management policies with respect to mortgage loans and evaluates their effectiveness. In addition, a risk rating system assists Management in identifying potential problems with loans so that these problems may be addressed in a proactive manner. These policies and processes have resulted in the effective control of impaired loans. At December 31, 1998, residential impaired loans totalled $2.0 million or .52% of the total mortgage portfolio, compared with $1.1 million or .22% at December 31, 1997.

TABLE 8: CONDENSED BALANCE SHEET

(in thousands of dollars)	1998	1997	Increase (Decrease)	Change
Cash and short term investments	$ 569,602	$ 320,658	$ 248,944	77.6%
Securities	369,982	392,819	(22,837)	(5.8)
Mortgage loans	348,158	574,009	(225,851)	(39.3)
Investment in affiliate	270,763	264,836	5,927	2.2
Other assets	240,439	212,942	27,497	12.9
	$1,798,944	$1,765,264	$ 33,680	1.9%
Deposits and certificates	$ 371,628	$ 488,022	$ (116,394)	(23.9)%
Accounts payable and other liabilities	314,006	265,829	48,177	18.1
Debentures and notes	262,382	264,167	(1,785)	(0.7)
Shareholders' equity	850,928	747,246	103,682	13.9
	$1,798,944	$1,765,264	$ 33,680	1.9%

During the year, Management continued its conservative policy of maintaining allowances at levels that are adequate to absorb all known and foreseeable credit-related losses in the mortgage loan and real estate portfolio. The Corporation's allowance for credit losses exceeded residential impaired loans by $5.1 million at December 31, 1998 and $5.7 million at December 31, 1997.

The provision for credit losses (expense charged in the current period) was $2.1 million in 1998, compared with $4.6 million in 1997. The Corporation does not anticipate any significant losses on its mortgage portfolio during 1999. This expectation is based on the presence of the following factors: the composition of the portfolio which is 100% residential; 85% of loans are originated by the Corporation's financial planners; the geographic diversity of the mortgages in the portfolio; and the continued application of strict credit risk management policies.

The carrying value of real estate holdings increased $.3 million during the year to $8.9 million. Included in real estate are assets that have been acquired in connection with the realization of the security interests underlying problem loans. Senior Credit Management regularly reviews these properties to ensure that they are carried at their net realizable values.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Liquidity is defined as the capability of an organization to meet its obligations as they come due. Liquidity management provides the certainty that funds will be available to honor all commitments through cash inflows, the disposition of liquid assets, or the ability to borrow. Liquidity management also involves the continuous forecasting and monitoring of expected cash flows.

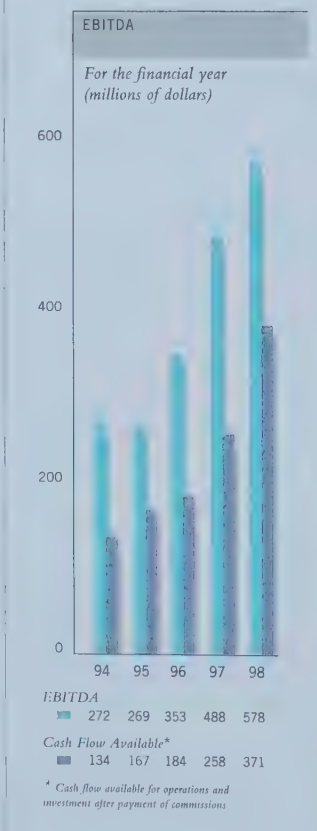
Investors Group's liquidity requirements involve the financing of operations, the servicing of the Corporation's debt and equity, and the provision of capital funding to its subsidiaries. In addition, Management wishes to maintain a certain level of liquidity in the event that attractive investment opportunities arise. In 1997, the Corporation issued $125 million of unsecured debentures, maturing on December 13, 2027, with an interest rate of 6.65%. The net proceeds from these debentures have been used for general corporate and investment purposes. The Corporation's 1989 issue of $100 million in unsecured debentures, with an interest rate of 10.65%, will mature on June 15, 1999. At that time, the Corporation will re-evaluate the level of liquidity required for operations and for potential investment opportunities in order to determine the nature and the extent of any new financing that might be required.

A key aspect of liquidity for the Corporation is the funding of mutual fund operations and, more specifically, the funding of commissions paid to representatives. As a result of the reduction in front-end loads, a greater proportion of commissions expense must be funded primarily through revenues earned from the Corporation's main source of income, management fees. Generally within the industry, mutual fund companies fund commissions expense by using capital raised through the sale of limited partnerships or by raising capital in equity and debt markets. The Corporation has a competitive advantage over many others in the industry because it can rely upon its strong financial position to address funding issues of this nature internally.

Management feels that commissions expense can be adequately funded through management fee revenue earned on the mutual fund assets under management. Funding can also be provided through the additional income which is earned from sales charges levied in connection with the early redemption of mutual funds. EBITDA (earnings before interest, taxes, depreciation, and amortization of commissions expense) totalled $578.1 million in 1998, compared to $488.1 million in 1997, an increase of 18.4% (Chart 10). In addition, the Corporation possesses significant levels of corporate resources and capital in order to fund any shortfalls, and therefore does not anticipate that it will need to employ any of the types of funding methods recently utilized by a number of mutual fund companies.

Investors Group maintains a significant investment in marketable securities. As at December 31, 1998, the aggregate market value of the marketable securities

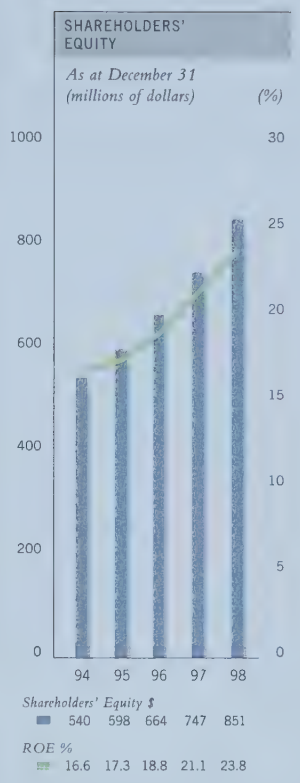
CHART 10



held in the portfolios of Investors Group and its unregulated subsidiaries was $400.2 million. Should extraordinary circumstances arise, the Corporation maintains lines of credit with various Schedule I Canadian chartered banks that total $160 million. Liquidity is further provided by the Corporation's ability to raise funds in domestic debt and equity markets.

Investors Group Trust engages in financial intermediary activities. Liquidity requirements for this subsidiary are established by provincial statutes which require Investors Group Trust to maintain liquid assets (for example, deposits with chartered banks, Treasury bills, government bonds, and similar instruments) with a value equal to no less than 20% of the amount of deposits due in 100 days or less, plus demand deposits. As at December 31, 1998, liquidity for the trust company measured on this basis was approximately 115%, well in excess of regulatory requirements.

CHART 11



Interest Rate Sensitivity

Interest rate risk refers to the potential impact on the Corporation's earnings (net investment income) of the repricing characteristics of its assets and liabilities, both on and off balance sheet.

The objective of asset liability management is to control interest rate risk by actively managing the Corporation's interest rate exposure within the limits established by the Investment Committee of the Board of Directors. Investors Group manages the repricing characteristics of its consolidated assets and liabilities. In addition, as required by regulation, the Corporation also manages interest rate risk on the assets and liabilities in connection with the deposit operations of its trust subsidiary, Investors Group Trust Co. Ltd.

Table 9 details the total interest rate sensitivity for the Corporation's trust subsidiary. As at December 31, 1998, the one year gap was $15.6 million which is in compliance with the Corporation's stated guideline of 5% of the assets of its trust company.

Capital Resources

The Corporation monitors capital adequacy on an ongoing basis. Common shareholders' equity amounted to $850.9 million at December 31, 1998, or 47.3% of total assets, as compared with 42.3% at year-end 1997 (Chart 11). The Corporation maintains a conservative leverage ratio, as at December 31, 1998 it was 1.11 compared with 1.36 at year-end 1997.

A strong capital base is critical to the Corporation's strategic objectives. Accordingly, Investors Group's capital management activities are pursued with the objectives of preserving the quality of its financial position through the balance sheet and by establishing and maintaining a sound capital base. As mentioned previously, the Corporation issued $125 million of debentures in 1997, the net proceeds of which were used for general corporate and investment purposes. This transaction did not have a

TABLE 9: INVESTORS GROUP TRUST CO. LTD. – INTEREST RATE SENSITIVITY

(in thousands of dollars)	0 to 3 months	4 to 12 months	Total within 1 year	1 to 5 years	Over 5 years	Non interest sensitive	Total
Deposit assets	$ 103,543	$ 81,859	$ 185,402	$ 126,789	$ 9,572	$ (2,616)	$ 319,147
Deposit liabilities	46,883	106,942	153,825	154,267	11,055	–	319,147
On balance sheet gap	56,660	(25,083)	31,577	(27,478)	(1,483)	(2,616)	–
Off balance sheet gap	(33,000)	17,000	(16,000)	16,000	–	–	–
Total gap	$ 23,660	$ (8,083)	$ 15,577	$ (11,478)	$ (1,483)	$ (2,616)	$ –

significant effect on the Corporation's capital adequacy and interest coverage ratios. In addition, during 1998 both the Canadian Bond Rating Service (CBRS) and the Dominion Bond Rating Service (DBRS) maintained their ratings of the Corporation's senior debt and certificate liabilities. The senior debt and liabilities were rated A+ Low by CBRS and A High by DBRS. These independent reviews further confirm the continuing quality of the Corporation's balance sheet and the strength of its operating results. Management is confident that the Corporation's current capital resources are adequate and that they are able to support its activities during 1999.

Investors Group Trust is permitted to maintain levels of deposits that are 25 times regulatory capital. As at December 31, 1998, deposits in the trust company were 13.6 times regulatory capital. Excess borrowing capacity for the Trust Company was $305.1 million.

Investors Syndicate Limited (ISL) is required to maintain a minimum of $5 million unrestricted capital. In addition, ISL is required to ensure that the value of its certificate liabilities does not exceed 10 times the value of its unrestricted capital. As at December 31, 1998, ISL's total unrestricted capital was $89.3 million and the value of its certificate liabilities was 0.6 times the value of its unrestricted capital.

OUTLOOK

Overview

Significant growth in the financial services and mutual fund industries has continued throughout 1998. Analysts continue to forecast substantial growth for the mutual fund industry, as well as considerable growth for the financial services industry as a whole, throughout the remainder of this decade and well into the next decade. This view is supported by the presence of a number of factors including changes in investment habits, increasing ease of investment, concern over the adequacy of government sponsored pension plans, and changing demographics. It is evident that an aging population is increasingly turning its attention to saving and investing.

For the most part, the financial services market is comprised of clients who have developed relationships with a number of different providers of financial services and products. These providers are constantly seeking to offer a broader range of financial services in order to enhance their competitive position within the industry. Therefore, in this environment, the challenge for industry participants is to significantly increase the number of products and services with each of their clients in order to protect their client base and expand their market share. This will allow them to enhance the quality and the extent of their relationships with their clients and thereby increase client retention rates.

The Competitive Environment

A critical aspect of the future outlook for the Corporation involves a consideration of the competitive environment within the financial services and mutual fund industries. In addition to competition from other mutual funds, the Corporation is increasingly in competition with investment alternatives offered by a number of other financial services organizations including banks, brokers, and life insurance companies.

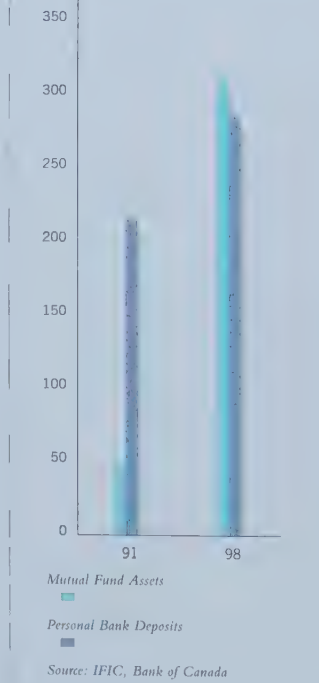
Clearly, the dominant competitive force in retail financial services is the banking industry. During 1998, banks continued to maintain a significant share of the mutual fund market. Money market fund assets continued to comprise a substantial portion of bank mutual fund assets, which is reflective, in part, of the process of disintermediation. However, the banks also continued to increase investment in non-money market funds. Management feels that the presence of the banks in the mutual fund industry has, and will continue to have, the ancillary effect of attracting conservative investors and depositors to mutual fund investments, thus accelerating the rate of growth for this industry as a whole (Chart 12). This, of course, has had a substantially positive impact on the Corporation which is strategically positioned to capitalize on changes in the saving and investing habits of Canadians.

Management is of the view that the Corporation can significantly enhance its competitive position in the mutual fund industry, and in financial services

CHART 12

GROWTH IN MUTUAL FUND AND DEPOSIT ASSETS

As at October 31
(billions of dollars)



Source: IFIC, Bank of Canada

generally, through the offering of a broader range of financial products to its existing clients, as well as through increased diversification of its core products. Management believes that this strategy will result in increases in the rates of client retention, the development of new clients, and the maintenance of existing client relationships. In addition, this strategy will assist representatives in diversifying as well as increasing their incomes as a result of an expansion in relationships with clients.

The Corporation recognizes stock brokers, independent financial planners, and life insurance agents as key competitors. During 1998, brokers continued to expand their distribution network of financial products which includes a number of mutual funds and a broad range of other products. In addition, during the year the expansion into Canada of the retail brokerage services of U.S. broker Merrill Lynch was achieved through the acquisition of Midland Walwyn. This re-entry by Merrill Lynch into the retail brokerage sector is an indication of increased competition in the marketplace. In addition, at year-end the announced expansion of Charles Schwab into the Canadian market, as well as the continued presence of Edward D. Jones and Company in Canada, are also reflective of increased competition provided by American brokerage houses.

Mutual fund dealers have also been successful in expanding their distribution network and increasing their penetration of the advice-seeking market. An important development in this area during the year involved the consolidation of a number of organizations into larger firms. This development reflects several factors including increased competition in this industry, the demands of regulators for improved compliance systems, as well as the underlying recognition by all competitors of the need for scale and efficiencies in order to remain competitive. An additional aspect of developments in the mutual fund dealer sector, is the trend toward increased vertical integration whereby these organizations are developing increased manufacturing capabilities. This trend is a reflection of the extent to which some of the Corporation's competitors are attempting to emulate the Corporation's model of integration of investment management and financial services distribution capabilities. Clearly, the Corporation has a distinct competitive advantage over its competitors in this area based on the highly-developed nature of its integrated model and approach, and the significant scale it has developed which only continues to increase. While developments of this nature do represent challenges, Management is confident that its well-established network of financial planning representatives and its substantial capability in mutual fund manufacturing will continue to assist the Corporation in maintaining its leading position in mutual funds and financial planning and in advancing its position as a primary distributor of a range of financial products.

The strong competitive environment within the various distribution channels for mutual funds in Canada is reflected in the number and in the size of the mutual funds management companies which provide products through these channels. Management views this as a healthy environment which will assist in ensuring that all investors receive quality investment management services for reasonable fees. Management anticipates continued strong competition in the mutual fund industry in 1999 but does expect some continued consolidation in the industry as smaller participants are acquired by larger, more efficient entities.

A continuing theme in this area is the competition among mutual fund manufacturers for the methods of distribution and the marketplace. This competition continued throughout 1998 as the number of mutual fund companies increased as well as the number of mutual funds being offered. These increases have heightened the competition surrounding the means and the channels of distribution. It is likely that this competition surrounding distribution and shelf space will only increase further during 1999. The Corporation is well-positioned in this respect on the basis of its vertical integration of manufacturing and distribution capabilities and its expanding network of financial services representatives. In addition, the planned realization of synergies involving London Insurance Group's sales force and the acquisition of the MAXXUM group of funds will further improve and strengthen the Corporation's competitive position by providing the Corporation with a means to access other distribution channels.

Some industry observers feel that increased competition in the Canadian market may exert downward pressure on fees charged for fund management and distribution. Management recognizes the potential for these types of challenges. However, it is of the view that the Corporation will be able to respond to these competitive pressures and continue to be a leader in the industry by pursuing its objectives of offering sound investment advice, maintaining consistently high levels of client service, and

continuing to emphasize the operational efficiencies, and by capitalizing on economies of scale.

The Regulatory Environment

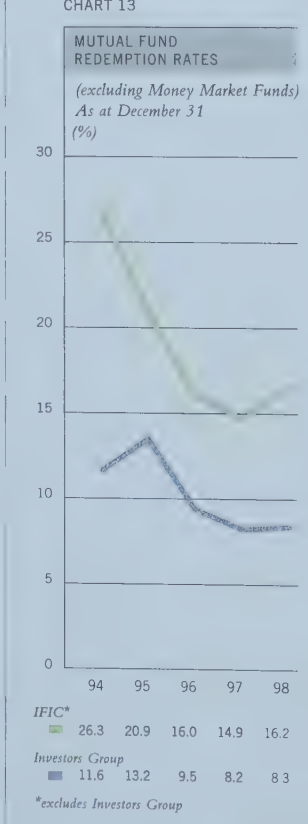
Another factor impacting the outlook for the financial services industry is the impact of the regulatory environment. In this regard, during the year there were a number of developments which may significantly impact the industry in future. The MacKay Report on financial services reform was an important development as it outlined a number of recommendations designed to improve the systems and the regulations surrounding the financial services industry. The recommendations of the task force focused on enhancing competition and competitiveness, empowering consumers, improving corporate conduct, and reforming regulatory rules. The MacKay Report views the global financial environment as evolving rapidly and states that the Canadian financial services sector must adapt to change if it is to keep pace with global development. The report further states that effective competition is the best manner of ensuring that the sector remains efficient and that it seeks to encourage competition in a number of ways. Management is very supportive of the task force's efforts to increase competition and to enhance the position of consumers within the marketplace and is optimistic that a number of the report's recommendations can be implemented in order to achieve these objectives.

An important regulatory development within the mutual fund industry was the creation of a self-regulatory organization (SRO) for mutual fund distributors which occurred at the end of 1997. This SRO, which has been named the Mutual Fund Dealers Association of Canada (MFDA), will regulate fund distributors in every province with the exception of Quebec. The MFDA was incorporated in early 1998 and it will be jointly governed by both the IDA and by IFIC. Five committees have been created to develop appropriate standards and rules for the MFDA. Some of these include capital and contingency, sales compliance, proficiency and continuing education, and distribution and structures. It is important to note that while the MFDA has been established it will not be fully operational for at least two years. Management is very supportive of the activities of the MFDA and several representatives of the Corporation have participated in the development of the MFDA and its standards and rules.

During 1998, the final version of National Instrument 81-105 dealing with mutual fund sales practices became effective. The instrument forbids certain sales practices and compensation arrangements that are seen to encourage undesirable behaviour by industry participants. Management is very supportive of this regulatory initiative. Its applicability to the Corporation is somewhat limited because of the Corporation's position as an exclusive distributor of its own mutual funds. However, the Corporation is ensuring that it fully complies with all aspects of the instrument which are applicable to its operations.

Another important aspect of the regulatory environment involves the rules established by the Canadian Payments Association (CPA) in order to govern the payments system. During the year, a paper was released by the Federal Department of Finance which presented the recommendations of the Payment System Advisory Committee regarding who should be granted access to the payments systems and the manner in which the CPA should be operated. The recommendation which addresses the issue of additional access to the payments system is important in order to determine whether financial services industry participants, including mutual fund companies, should be granted direct access to the system. The granting of such access should assist in ensuring that clients can be properly served and that there is a level playing field among all financial services industry participants. Management feels that resolution of the issues surrounding the payment system in a fair and reasonable manner is necessary to ensure that consumers benefit and that fair and equitable competition is ensured. Further, the Corporation wants to ensure that all stable, well-capitalized participants in the industry are accorded direct access to the system so that client needs are met and a level competitive playing field is ensured.

CHART 13



In a related matter, during 1997 some banks began to enforce a section of CPA rule H4 for pre-authorized debits that prohibits the use of one-time or sporadic debits to clients' accounts. The enforcement of Rule H4 led to a number of complaints from mutual fund companies and their clients because these one-time pre-authorized debits were a convenient way of transferring funds to invest in mutual funds. To address this concern, in 1998 the CPA created a working group to consider alternatives or rule changes.

The regulatory environment continues to have a very significant impact on the industry. Management continues to be very supportive of all regulatory efforts that will protect the interests of unitholders, as well as to preserve the integrity and reputation of the industry and its members and they look forward to future developments in this area in order to achieve these objectives.

The Market Environment

The future outlook may also be affected by any corrections in domestic and international equity markets and by any increases in interest rates. During 1998, many equity markets experienced declines, particularly during the third quarter. This had the effect of slowing the demand for mutual funds during part of the year. However, in general, growth in the mutual fund market is expected to continue at a significant rate over the longer term. In addition, while any increases in interest rates could significantly impact both equity markets and mutual fund sales, Management believes that its representatives perform an effective role in periods of declining markets by encouraging clients to assume a long term investment outlook and continue to invest for the future.

Declines in the values of equity markets could also result in increased redemptions in mutual funds. However, Management is of the view that the industry has performed an important role in educating mutual fund investors and in emphasizing the benefits of long term investment. Redemption rates in the industry as a whole, excluding money market funds, increased slightly during the year to 16.2%. The redemption rate for the Corporation's mutual funds remained relatively level at 8.3%, despite the corrections which were experienced in some equity markets (Chart 13). The redemption rates for these funds remain among the lowest in the industry. Management feels that its financial planning representatives have performed a key role in maintaining low redemption rates. Representatives achieve this by educating and advising clients with regard to the value of a long-term investment strategy and the benefits of an appropriate level of diversification in their portfolios.

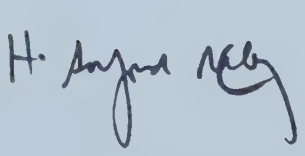
Consolidated Balance Sheets

As at December 31 *(in thousands of dollars)*	1998	1997
ASSETS		
Cash and investments		
Cash and short term investments	$ 569,602	$ 320,658
Securities *(Note 2)*	369,982	392,819
Mortgage loans *(Note 3)*	348,158	574,009
	1,287,742	1,287,486
Investment in affiliate *(Note 4)*	270,763	264,836
Deferred expenses	68,076	77,492
Other assets *(Note 5)*	172,363	135,450
	$ 1,798,944	$ 1,765,264
LIABILITIES		
Deposits and certificates *(Note 6)*	$ 371,628	$ 488,022
Accounts payable and other liabilities	314,006	265,829
Debentures and notes *(Note 7)*	262,382	264,167
	948,016	1,018,018
SHAREHOLDERS' EQUITY		
Share capital *(Note 8)*	273,006	272,021
Retained earnings	577,922	475,225
	850,928	747,246
	$ 1,798,944	$ 1,765,264

On behalf of the Board

Director *Director*





(See accompanying notes to consolidated financial statements.)

Consolidated Statements of Income

For the years ended December 31 *(in thousands of dollars except earnings per share)*	1998	1997
FEE INCOME		
Management	$ 657,619	$ 560,955
Administration	128,810	105,854
Distribution	69,322	59,078
Total fee income	855,751	725,887
INVESTMENT INCOME		
Investment income	119,206	125,771
Interest expense	45,476	54,740
Net investment income	73,730	71,031
OPERATING INCOME	929,481	796,918
OPERATING EXPENSES	605,310	547,522
Income before income taxes	324,171	249,396
Income taxes *(Note 9)*	135,827	101,884
NET INCOME	$ 188,344	$ 147,512
Average number of shares outstanding *(Note 8)*	211,396,409	211,383,374
EARNINGS PER SHARE *(Note 8)*	$ .891	$ .698

(See accompanying notes to consolidated financial statements.)

Consolidated Statements of Retained Earnings

For the years ended December 31 *(in thousands of dollars)*	1998	1997
BALANCE, BEGINNING OF YEAR	$ 475,225	$ 392,529
Net income	188,344	147,512
Dividends	(80,320)	(63,414)
Premium paid on common shares purchased for cancellation *(Note 8)*	(5,327)	(1,402)
BALANCE, END OF YEAR	$ 577,922	$ 475,225

(See accompanying notes to consolidated financial statements.)

Consolidated Statements of Changes in Financial Position

For the years ended December 31 *(in thousands of dollars)*	1998	1997
OPERATING ACTIVITIES		
Net income	$ 188,344	$ 147,512
Adjustments to determine net cash from operating activities		
Deferred income taxes	(16,328)	(9,595)
Deferred expenses	9,416	(20,526)
Depreciation	10,021	14,670
Other	(3,069)	82,701
	188,384	214,762
FINANCING ACTIVITIES		
Increase (decrease) in demand deposits	5,760	(297,258)
Decrease in term deposits	(88,608)	(139,288)
Decrease in certificates	(33,546)	(61,008)
Issue of debenture	–	125,000
Repayment of note	(1,785)	(1,785)
Common dividends paid	(76,101)	(59,187)
Issue of common shares	1,279	702
Shares purchased for cancellation	(5,621)	(1,513)
	(198,622)	(434,337)
INVESTING ACTIVITIES		
Net sale of securities	35,379	152,754
Decrease in mortgage loans	230,907	228,708
Proceeds from the sale of real estate	7,843	1,777
Investment in affiliate	–	(267,000)
Additions to capital assets	(14,947)	(9,912)
	259,182	106,327
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	248,944	(113,248)
Cash and cash equivalents, beginning of year	320,658	433,906
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 569,602	$ 320,658
Cash	$ 36,598	$ 27,812
Short term investments	533,004	292,846
	$ 569,602	$ 320,658

(See accompanying notes to consolidated financial statements.)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

Basis of consolidation

The consolidated financial statements include the accounts of the Corporation and all subsidiaries on a consolidated basis. The equity method is used to account for the Corporation's investment in Great-West Lifeco Inc., an affiliated company. Both corporations are controlled by Power Financial Corporation.

Goodwill, representing the excess of the purchase price over the fair value of the net assets of the Corporation's investment in its affiliate, is amortized over 30 years using the straight-line method, except where a write-down is required to reflect permanent impairment.

Securities

Bonds and debentures are carried at amortized cost plus accrued interest. Discounts or premiums on the purchase of bonds and debentures are amortized over the remaining life of the security. Common and preferred shares and all other securities are carried at original cost plus declared dividends. Securities are written down to their fair value when a long term permanent decline in value is identified.

Mortgage loans

Mortgage loans are carried at amortized cost plus accrued interest less an allowance for credit losses. Interest income is accounted for on the accrual basis for all loans other than impaired loans.

A loan is classified as impaired when, in the opinion of management, there no longer is reasonable assurance of the timely collection of the full amount of principal and interest. A loan is also classified as impaired when interest or principal is contractually past due 90 days, except in circumstances where management has determined that the collectibility of principal and interest is not in doubt. Once a loan is classified as impaired, any uncollected interest is reversed and charged against interest income in the current period. Thereafter interest income is recognized on a cash basis.

The Corporation maintains an allowance for credit losses which is considered adequate by management to absorb all credit related losses in its portfolio. Specific allowances are established as a result of reviews of individual loans. There is a second category of allowance, designated general allowance, which is allocated against sectors rather than specifically against individual loans. This allowance is established where a prudent assessment by the Corporation suggests that losses may occur but where such losses cannot yet be identified on an individual loan basis.

Real estate

On foreclosure, mortgage loans are adjusted, if necessary, to the estimated fair value of the underlying collateral and transferred to real estate, which is reported in other assets net of selling costs and net declines in value as appropriate.

Office premises

Office premises are recorded at cost of $116,089 (1997 – $101,300), less accumulated depreciation of $50,367 (1997 – $43,388). The depreciable properties and related equipment and furnishings are depreciated on a straight-line basis over their estimated lives.

Deferred expenses

Commissions paid on the sale of certain mutual fund products are deferred and amortized against related fee income over a maximum period of three years. Commissions paid on the sale of deposits are deferred and amortized over the term of the deposit with a maximum amortization period of five years.

Pension plans and other post-retirement benefits

The Corporation participates in a funded defined benefit pension plan for certain employees and an unfunded supplementary plan for certain executive officers. Pension costs related to current services are charged to income in the period during which the services are rendered; past service costs and actuarial gains or losses which have not been charged to income are amortized over the expected average remaining service life of the employee group covered by the plan. The cumulative difference between pension costs and funding payments is recorded on the balance sheet.

Post-retirement health care and life insurance benefits provided to eligible retirees are expensed as incurred.

Income taxes

The Corporation follows the tax allocation basis in accounting for income taxes, whereby income taxes are based on transactions recorded in the financial statements regardless of when they are recognized for tax purposes. Deferred income taxes which are reported in other assets are recorded when there are timing differences in the recognition of transactions for financial statement and income tax purposes.

Off-balance sheet financial instruments

The Corporation enters into various derivative contracts in order to manage its interest rate, currency and market risks. The accounting policies used for derivative financial instruments which are used for hedging purposes correspond to those used for the underlying hedged positions.

Comparative figures

Certain comparative figures have been reclassified to conform with the current year's financial statement presentation.

2. SECURITIES

	1998		1997	
	Cost	Market	Cost	Market
Government bonds	$ 31,829	$ 31,647	$ 23,060	$ 22,768
Corporate bonds	780	780	767	767
Preferred shares	141,232	152,703	164,434	179,226
Common shares	196,141	314,736	204,558	349,974
	$369,982	$499,866	$392,819	$552,735

	Term to Maturity				
	1 Year or Less	1-5 Years	Over 5 Years	1998 Total	1997 Total
Government bonds	$ –	$ 31,829	$ –	$ 31,829	$ 23,060
Yield[1]	–	6.52%	–	6.52%	
Corporate bonds	–	–	780	780	767
Yield[1]	–	–	6.85%	6.85%	
Preferred shares	61,652[2]	79,580	–	141,232	164,434
Yield[1][3]	5.92%	6.75%	–	6.39%	
Common shares	–	–	196,141	196,141	204,558
Yield[1][3]	–	–	5.71%	5.71%	
	$ 61,652	$111,409	$196,921	$369,982	$392,819

[1] Represents weighted average yield based on carrying values.

[2] Includes floating rate preferred shares with no stated maturity date.

[3] Yields on tax exempt securities have not been calculated on a taxable equivalent basis.

3. MORTGAGE LOANS AND ALLOWANCE FOR CREDIT LOSSES

	1998			1997		
	Gross Amount	Allowance for Credit Losses	Net Amount	Gross Amount	Allowance for Credit Losses	Net Amount
Residential	$355,193	$ –	$355,193	$450,579	$ 97	$ 450,482
Commercial	–	–	–	137,041	6,851	130,190
General allowance	–	7,035	(7,035)	–	6,663	(6,663)
Total	$355,193	$ 7,035	$348,158	$587,620	$ 13,611	$ 574,009
Impaired loans included above:						
Residential	$ 1,983	$ –	$ 1,983	$ 1,050	$ 97	$ 953
Commercial	–	–	–	13,042	6,851	6,191
General allowance	–	7,035	(7,035)	–	6,663	(6,663)
Total	$ 1,983	$ 7,035	$ (5,052)	$ 14,092	$ 13,611	$ 481

	Term to Maturity				
	1 Year or Less	1-5 Years	Over 5 Years	1998 Total	1997 Total
Total mortgages	$174,155	$167,657	$ 13,381	$355,193	$ 587,620

3. MORTGAGE LOANS AND ALLOWANCE FOR CREDIT LOSSES (cont'd)

The change in the allowance for credit losses is as follows:

	1998	1997
Balance, beginning of year	$ 13,611	$ 11,954
Write-offs	(10,362)	(3,353)
Recoveries	1,668	361
Provision for credit losses	2,118	4,649
Balance, end of year	$ 7,035	$ 13,611

4. INVESTMENT IN AFFILIATE

The Corporation holds a 4.3% equity interest in Great-West Lifeco Inc. Goodwill of $143,812 (1997 – $149,415) is included in the carrying value of the investment. The Corporation's share of earnings net of goodwill amortization was $13,070 in 1998 (1997 – nil) and it is included in Investment Income.

5. OTHER ASSETS

	1998	1997
Office premises	$ 65,722	$ 57,912
Accounts and other receivables	45,364	37,602
Real estate	8,921	8,617
Deferred income taxes	15,995	–
Other, including prepaid expenses	36,361	31,319
	$172,363	$135,450

6. DEPOSITS AND CERTIFICATES

Included in the assets of the consolidated balance sheets are cash and investments amounting to $319,147 (1997 – $401,995) held to secure the deposits of Investors Group Trust Co. Ltd. Also included in the assets of the consolidated balance sheets are assets lodged with an approved depository related to certificates issued by Investors Syndicate Limited amounting to $97,468 (1997 – $150,767). The value of these assets exceeded certificates by $45,009 (1997 – $64,761).

		Term to Maturity				
	Demand	1 Year or Less	1-5 Years	Over 5 Years	1998 Total	1997 Total
Deposits	$ 22,303	$131,522	$154,267	$ 11,055	$319,147	$401,995
Certificates	–	14,384	26,541	11,556	52,481	86,027
	$ 22,303	$145,906	$180,808	$ 22,611	$371,628	$488,022

7. DEBENTURES AND NOTES

	1998	1997
10.65% Debentures 1989 Series, due June 15, 1999	$ 99,877	$ 99,877
10.60% Note Payable to Power Financial Corporation, due January 16, 2006	37,505	39,290
6.65% Debentures 1997 Series, due December 13, 2027	125,000	125,000
	$262,382	$264,167

7. DEBENTURES AND NOTES (cont'd)

Interest expense relating to this debt was $22,951 (1997 – $15,243).

The annual principal payments in each of the next five years are $101,662 in 1999 and $1,785 in each of the years 2000 to 2003, both inclusive.

8. SHARE CAPITAL

Authorized

Unlimited number of First preferred shares, issuable in series and unlimited number of Second preferred shares, issuable in series. Unlimited number of Class 1 non-voting shares and unlimited number of Common shares.

Stock split

On the record date of July 13, 1998, the Corporation's common shares were split on a two-for-one basis. All share and per share amounts have been adjusted retroactively to reflect the subdivision.

Common shares issued and outstanding

	1998		1997	
	Shares	Stated Value	Shares	Stated Value
Balance, beginning of year	211,364,080	$ 272,021	211,369,680	$ 271,430
Issued under Stock Option Plan	146,600	1,279	81,000	702
Purchased for cancellation	(227,300)	(294)	(86,600)	(111)
Balance, end of year	211,283,380	$ 273,006	211,364,080	$ 272,021

Option plan

Under the terms of the Corporation's Stock Option Plan, options to purchase common shares are periodically granted to designated officers and employees at prices not less than the market price of such shares immediately prior to the grant date. The options are exercisable no later than 10 years after date of grant. A maximum number of 5,772,400 common shares are reserved for issuance under the plan. During 1998, options to purchase 146,600 shares were exercised at a weighted average price of $8.72 and 94,400 options were cancelled.

Year Granted	Expiry Date	Exercise Price $	Outstanding December 31, 1997	Issued During Year	Exercised During Year	Cancelled During Year	Outstanding December 31, 1998
1995	2005	8.66	1,708,400	–	139,200	68,400	1,500,800
1996	2006	8.89	53,400	–	5,400	–	48,000
1997	2007	12.98-13.55	170,800	–	2,000	–	168,800
1998	2008	18.85-20.99	–	432,200	–	26,000	406,200
			1,932,600	432,200	146,600	94,400	2,123,800

Normal course issuer bid

In February, 1998, the Corporation filed a normal course issuer bid authorizing it to acquire for cancellation up to 10.6 million or 5% of the outstanding common shares. The share purchase program, conducted on the open market through the recognized exchanges, will expire on February 14, 1999.

In 1998, 227,300 common shares were repurchased at a cost of $5,621 and the premium paid to acquire the shares was charged to retained earnings.

9. INCOME TAXES

The effective income tax rate differs from the statutory rate, as described below:

	1998		1997	
Income before income taxes	$324,171		$ 249,396	
Income taxes at federal and provincial statutory rates	$ 147,693	45.56%	$ 114,511	45.92%
Effect of:				
Dividend income	(9,679)	(2.99)	(12,153)	(4.87)
Net capital gains and losses	(964)	(0.30)	(1,408)	(0.56)
Tax on large corporations	307	0.10	(270)	(0.11)
Lower effective rate of tax on income not subject to tax in Canada and other items	(1,530)	(0.47)	1,204	0.47
Income taxes provided	$ 135,827	41.90%	$ 101,884	40.85%
Components of income taxes provided are:				
Current income tax	$152,155		$ 111,479	
Deferred income tax	(16,328)		(9,595)	
	$135,827		$ 101,884	

10. PENSION PLANS

The Corporation maintains a defined benefit, final average pension plan which covers substantially all of its employees. As at December 31, 1998, the present value of accrued pension benefits was $89,142 (1997 – $85,493) and the adjusted market value of pension fund assets available to fund these benefits was $113,924 (1997 – $111,390). The actuarially determined obligation of the unfunded supplementary employee retirement plan as at December 31, 1998 was $7,437 (1997 – $7,233) and the cost accrued to that date was $7,437 (1997 – $7,233).

11. OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

The Corporation enters into derivative contracts which are negotiated in the over-the-counter market with Schedule I and Schedule II Chartered bank counterparties on a diversified basis. In all cases the derivative contracts are used for non-trading purposes and they are designated as hedges. Interest rate swaps are contractual agreements between two parties to exchange the related interest payments based on a specified notional amount and reference rate for a specified period. Interest rate swaps are used for the purpose of asset and liability management to manage interest rate risk in the deposit and mortgage banking operations. Equity index swaps are contractual agreements to exchange payments based on a specified notional amount and the stock market index reference for a specific period. Options are contractual agreements which convey the right, but not the obligation, to buy or sell specific securities at a fixed price at a future date. Options and equity index swaps are used to manage equity market risk through hedging activities that are designed to offset changes in the equity markets that affect income earned on assets under management.

The amount subject to credit risk is limited to the current market value of the instruments which are in a gain position. This represents only a small percentage of the notional amount. The credit risk is presented without giving effect to any netting agreements or collateral arrangements and does not reflect actual or expected losses. The total estimated fair value represents the total amount that the Corporation would receive or pay to terminate all agreements at each year end. However, this does not result in a gain or loss to the Corporation as the derivative instruments which correlate to certain assets and liabilities provide offsetting gains or losses.

11. OFF-BALANCE SHEET FINANCIAL INSTRUMENTS (cont'd)

The following table summarizes the Corporation's off-balance sheet financial instruments at December 31:

	Notional Amount				
	1 Year or Less	1-5 Years	Total	Credit Risk	Total Estimated Fair Value
1998					
Swaps	$ 83,030	$129,178	$212,208	$ 3,443	$ (3,424)
Options purchased	33,195	136,670	169,865	5,516	5,516
Options written	34,076	149,172	183,248	–	(12,764)
	$150,301	$415,020	$565,321	$ 8,959	$ (10,672)
1997					
Swaps	$ 55,244	$ 46,500	$101,744	$ 914	$ (3,931)
Options purchased	35,190	118,051	153,241	370	370
Options written	35,685	123,760	159,445	–	(22,145)
	$126,119	$288,311	$414,430	$ 1,284	$ (25,706)

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table represents the fair value of on and off-balance sheet financial instruments using the valuation methods and assumptions described below. Fair value represents the amount that would be exchanged in an arm's length transaction between willing parties under no compulsion to act and best evidenced by a quoted market price, if one exists. Fair values are management's estimates and are generally calculated using market conditions at a specific point in time and may not reflect future fair values. The calculations are subjective in nature, involve uncertainties and matters of significant judgment.

	1998			1997		
	Book Value	Fair Value	Fair Value Over (Under) Book Value	Book Value	Fair Value	Fair Value Over (Under) Book Value
ASSETS						
Cash and short term investments	$ 569,602	$ 569,602	$ –	$ 320,658	$ 320,658	$ –
Securities	369,982	499,866	129,884	392,819	552,735	159,916
Mortgage loans	348,158	353,681	5,523	574,009	583,159	9,150
Accounts and other receivables	45,364	45,364	–	37,602	37,602	–
Total financial assets	1,333,106	$1,468,513	$ 135,407	1,325,088	$1,494,154	$ 169,066
Non-financial assets	465,838			440,176		
Total assets	$1,798,944			$1,765,264		
LIABILITIES						
Deposits and certificates	$ 371,628	$ 383,314	$ 11,686	$ 488,022	$ 504,591	$ 16,569
Accounts payable and other liabilities	207,253	207,253	–	169,462	169,462	–
Debentures and notes	262,382	268,475	6,093	264,167	273,724	9,557
Total financial liabilities	841,263	$ 859,042	$ 17,779	921,651	$ 947,777	$ 26,126
Non-financial liabilities	106,753			96,367		
Total liabilities	$ 948,016			$1,018,018		
Derivatives *(Note 11)*	$ –	$ (10,672)	$ (10,672)	$ –	$ (25,706)	$ (25,706)

12. FAIR VALUE OF FINANCIAL INSTRUMENTS (cont'd)

Fair value is determined using the following methods and assumptions:

Short term financial instruments are assumed to be equal to book value. These include cash and short term investments, accounts and other receivables, and accounts payable and other liabilities.

Securities are valued at quoted market prices, when available. When a quoted market price is not readily available, alternative valuation methods may be used.

Mortgage loans are determined by discounting the expected future cash flows at market interest rates for loans with similar credit risk.

Deposits and certificates are determined by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms and credit risks.

Debentures and notes are determined by reference to current market prices for debentures and notes payable with similar terms and risks.

Derivative financial instruments are based on quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, or net present value analysis.

13. CONTINGENCIES AND COMMITMENTS

The Corporation is committed to the following annual lease payments under its operating leases: 1999 – $22,637; 2000 – $15,530; 2001 – $13,062; 2002 – $11,642 and 2003 – $11,146.

14. YEAR 2000

The Year 2000 issue arises because many existing computer systems record and identify years with two digits, rather than four. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000, and, if not properly addressed, the impact on operations and financial reporting may range from minor errors to systems failure which could temporarily affect the Corporation's ability to conduct normal business operations.

The Corporation has initiated an enterprise wide project to address the Year 2000 issue, however it is not possible to be certain that all aspects of the Year 2000 issue affecting the Corporation, particularly those related to the efforts of suppliers or other third parties, will be fully resolved.

15. RELATED PARTY TRANSACTIONS

The Corporation enters into transactions with its affiliate, Great-West Lifeco Inc. and London Life Insurance Co., a subsidiary of its affiliate in the normal course of operations and at market terms and conditions.

The Corporation distributes life insurance and disability insurance products of Great-West Lifeco Inc. which resulted in revenue of $13,454 (1997 – $11,711). No residential mortgage loans were sold to Great-West Lifeco Inc. in 1998 (1997 – $50,945).

In 1998, the Corporation provided certain administrative services to London Life Insurance Co. which resulted in revenue of $1,500. In addition, the Corporation entered into an agreement to purchase the MAXXUM mutual fund investment management operations of London Life Insurance Co. pending regulatory approval. The transaction has been accounted for using the purchase method.

16. SEGMENTED INFORMATION

The Corporation is a personal financial services organization and operates only in the financial services industry. The Corporation provides financial planning advice to individual clients through its financial planning representatives located across Canada. The Corporation offers products and services that include mutual funds, mortgages, insurance, brokerage services and other investment products such as guaranteed investment certificates and annuities. Significant operations are classified into operations for which the Corporation receives fee based revenue and operations from which the Corporation earns revenues from its activities as an intermediary.

Fee based revenues are earned by the Corporation in the conduct of its core business activities which are primarily related to the distribution, management and administration of its mutual funds. Fee revenue is also derived from the distribution of insurance products. Segment revenues and profits are dependent on the total value and composition of assets under management which include domestic equity, international equity, debt and balanced mutual funds.

Intermediary revenues are derived primarily from the assets funded by deposit and certificate products, mortgage services, mortgage banking and corporate investments. Segment revenues include investment income from cash and short term investments, securities, mortgage loans and also includes gains and losses on the sale of securities.

The following table presents certain information regarding the Corporation's segments. Income taxes are not allocated to segments. Assets reported in fee based operations represent mutual fund assets under management which are not reflected on the Corporation's balance sheet. Intermediary assets include all on balance sheet assets and mortgage assets under administration not reflected on the Corporation's balance sheet.

16. SEGMENTED INFORMATION (cont'd)

	1998	1997
REVENUES		
Fee based operations	$ 855,751	$ 725,887
Intermediary	119,206	125,771
	$ 974,957	$ 851,658
INCOME BEFORE INCOME TAXES		
Fee based operations	$ 283,686	$ 210,573
Intermediary[1]	40,485	38,823
	$ 324,171	$ 249,396
ASSETS		
Fee based operations	$ 36,063,827	$ 32,248,292
Intermediary	$ 7,586,897	$ 2,783,593

[1] *Includes interest income of $64,236 (1997 – $76,745) and interest expense of $45,476 (1997 – $54,740).*

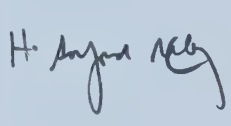
Management's Responsibility for Financial Reporting

The financial statements of Investors Group Inc. and related financial information have been prepared by Management, which is responsible for the integrity, objectivity and reliability of the data presented. This responsibility includes selecting appropriate accounting principles and making judgments and estimates consistent with generally accepted accounting principles. Financial information presented elsewhere in this Annual Report is consistent with that in the financial statements.

Systems of internal control and supporting procedures are maintained to provide reasonable assurance of the reliability of financial information and the safeguarding of all assets controlled by the Corporation. These controls and supporting procedures include quality standards in hiring and training employees, the establishment of organizational structures providing a well-defined division of responsibilities and accountability for performance, and the communication of policies and guidelines through the organization. Internal controls are reviewed and evaluated by extensive internal audit programs, which are subject to scrutiny by the shareholders' auditors.

Ultimate responsibility for the financial statements rests with the Board of Directors. The Board is assisted in its responsibilities by an Audit Committee, consisting of directors who are not officers or employees of the Corporation. This committee reviews the consolidated financial statements and recommends them for approval by the Board. In addition, the committee reviews the recommendations of the internal auditor and the shareholders' auditors for improvements in internal control and the action of Management to implement such recommendations. In carrying out its duties and responsibilities, the committee meets regularly with Management and with both the internal auditor and the shareholders' auditors to review the scope and timing of their respective audits, to review their findings and to satisfy itself that their responsibilities have been properly discharged.

Deloitte & Touche, independent auditors appointed by the shareholders, have examined the financial statements in accordance with generally accepted auditing standards, performing such tests and other procedures as they consider necessary in order to express the opinion in their Report to the Shareholders. The shareholders' auditors have full and free access to the Audit Committee to discuss their audit and related findings as to the integrity of the Corporation's financial reporting and the adequacy of the systems of internal control.



H. Sanford Riley
President & Chief Executive Officer



Gregory D. Tretiak
Senior Vice-President, Finance

Auditors' Report

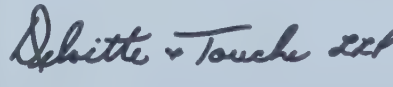
TO THE SHAREHOLDERS OF INVESTORS GROUP INC.

We have audited the consolidated balance sheets of Investors Group Inc. as at December 31, 1998 and 1997 and the consolidated statements of income, retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Chartered Accountants



Winnipeg, Manitoba
January 29, 1999

Ten Year Review

CONDENSED STATEMENTS OF INCOME

For the years ended December 31 *(in thousands of dollars except amounts per share)*

	1998	1997	1996	1995	1994	5 Year% CAGR[1]	1993	1992	1991	1990	1989	10 Year% CAGR[1]
Fee income	855,751	725,887	544,375	434,447	407,710	*20.5*	336,891	256,154	204,042	157,092	145,878	*20.3*
Net investment income	73,730	71,031	69,101	54,014	39,571	*9.0*	47,820	60,871	52,605	50,889	54,040	*5.2*
	929,481	796,918	613,476	488,461	447,281	*19.3*	384,711	317,025	256,647	207,981	199,918	*17.9*
Operating expenses	605,310	547,522	434,643	339,705	327,100	*15.8*	290,147	239,725	193,498	154,325	137,476	*17.1*
	324,171	249,396	178,833	148,756	120,181	*27.9*	94,564	77,300	63,149	53,656	62,442	*19.7*
Income taxes	135,827	101,884	61,331	51,049	35,578	*41.1*	24,261	18,967	12,434	6,036	12,123	*27.3*
Net income	188,344	147,512	117,502	97,707	84,603	*21.8*	70,303	58,333	50,715	47,620	50,319	*16.3*
Earnings per share (¢)	89	70	56	46	40	*21.8*	33	29	27	25	26	*15.5*
Dividends per share (¢)	38	30	25	19	16	*24.9*	13	11	10	10	9	*15.8*
ROE[2] (%)	23.8	21.1	18.8	17.3	16.6	–	15.2	15.4	18.5	20.1	23.3	–
Average shares outstanding (000's)	211,396	211,383	211,370	211,370	211,370	–	211,370	204,156	191,550	192,040	197,178	–
Share price (closing $)	26.40	22.60	13.50	8.32	8.69	*18.3*	11.38	6.47	5.33	3.19	3.02	*30.7*

STATISTICAL DATA *(in millions of dollars)*

MUTUAL FUNDS												
Sales	6,296	6,513	5,031	3,472	4,240	*9.8*	3,940	3,134	2,270	1,547	1,318	*18.5*
Redemption rates (%)												
including MMF[3]	10.0	9.9	11.6	15.4	13.7	–	12.2	11.3	12.4	16.5	17.0	–
excluding MMF[3]	8.3	8.2	9.5	13.2	11.6	–	9.9	8.3	8.9	13.1	13.8	–
Net sales	2,887	3,522	2,361	543	1,900	*5.9*	2,168	1,663	1,068	277	117	*40.7*
Assets under management	36,064	32,248	25,912	20,262	17,571	*17.9*	15,800	11,359	9,290	7,065	6,869	*19.7*
MORTGAGES												
Originations	959	1,002	912	812	935	*8.5*	638	766	546	475	677	*4.4*
Mortgages serviced	8,144	4,157	4,145	3,935	3,541	*21.2*	3,120	3,015	2,754	2,710	2,542	*13.9*
INSURANCE												
Sales (annualized premiums)	19	14	10	8	4	*27.7*	6	5	6	6	6	*13.2*
In force (face amount)	14,548	12,279	10,327	9,256	8,158	*13.9*	7,600	7,012	6,551	5,996	5,180	*13.0*
DEPOSITS AND CERTIFICATES												
Sales	78	94	117	301	259	*(18.4)*	216	214	305	452	455	*(17.3)*
Deposits & certificates	372	488	986	1,032	1,085	*(21.4)*	1,240	1,426	1,612	1,735	1,675	*(12.9)*
CORPORATE ASSETS	1,799	1,765	1,959	1,904	1,866	*(1.6)*	1,951	2,102	2,139	2,228	2,176	*(0.5)*
MUTUAL FUND UNITHOLDER ACCOUNTS *(in thousands)*	3,498	2,890	2,196	1,726	1,485	*24.2*	1,184	974	839	754	701	*18.1*
CLIENTS *(in thousands)*	1,013	940	846	764	706	*13.5*	538	475	426	394	367	*11.3*
REPRESENTATIVES	3,774	3,507	3,187	3,032	3,395	*4.6*	3,019	2,491	1,941	1,728	1,596	*8.7*

[1] *Compound annual growth rate* [2] *Return on average common equity* [3] *Money market funds*

Quarterly Review

STATEMENTS OF QUARTERLY INCOME

For the years ended December 31 *(in thousands of dollars except amounts per share)*

	1998				1997			
	4th	3rd	2nd	1st	4th	3rd	2nd	1st
FEE INCOME								
Management	$166,272	$166,249	$169,334	$155,764	$151,137	$147,337	$136,376	$126,105
Administration	37,015	32,183	29,688	29,924	28,430	28,728	26,092	22,604
Distribution	19,366	16,641	17,850	15,465	17,925	13,819	13,008	14,326
Total fee income	222,653	215,073	216,872	201,153	197,492	189,884	175,476	163,035
INVESTMENT INCOME								
Investment income	38,536	26,499	27,677	26,494	35,706	26,349	32,780	30,936
Interest expense	10,856	11,112	11,434	12,074	11,482	12,098	15,042	16,118
Net investment income	27,680	15,387	16,243	14,420	24,224	14,251	17,738	14,818
OPERATING INCOME	250,333	230,460	233,115	215,573	221,716	204,135	193,214	177,853
OPERATING EXPENSES	155,213	143,721	152,223	154,153	146,078	136,086	133,774	131,584
Income before income taxes	95,120	86,739	80,892	61,420	75,638	68,049	59,440	46,269
Income taxes	42,734	36,396	32,422	24,275	35,198	27,799	22,233	16,654
NET INCOME	$ 52,386	$ 50,343	$ 48,470	$ 37,145	$ 40,440	$ 40,250	$ 37,207	$ 29,615
EARNINGS PER SHARE (¢)	24.8	23.8	22.9	17.6	19.1	19.1	17.6	14.0
DIVIDENDS PER SHARE (¢)	10.5	9.5	9.5	8.5	8.5	7.5	7.5	6.5

STATISTICAL DATA

(in millions of dollars)

MUTUAL FUNDS								
Sales	$ 1,290	$ 1,359	$ 1,546	$ 2,101	$ 1,682	$ 1,446	$ 1,395	$ 1,990
Redemption rate[1] (%)	10.0	10.0	9.8	9.6	9.9	10.2	10.6	11.1
Net sales	503	543	569	1,272	940	714	650	1,218
Assets under management	36,064	31,724	35,913	35,615	32,248	32,206	29,875	27,286
MORTGAGES								
Originations	$ 209	$ 253	$ 298	$ 199	$ 227	$ 250	$ 290	$ 235
Mortgages serviced	8,144	4,177	4,160	4,151	4,157	4,152	4,139	4,084
INSURANCE								
Sales (annualized premiums)	$ 6	$ 5	$ 4	$ 4	$ 5	$ 3	$ 3	$ 3
In force (face amount)	14,548	13,753	13,208	12,747	12,279	11,695	11,192	10,733
DEPOSITS AND CERTIFICATES								
Sales	$ 20	$ 19	$ 17	$ 22	$ 23	$ 21	$ 28	$ 22
Deposits & certificates	372	386	404	419	488	543	589	632
CORPORATE ASSETS	$ 1,799	$ 1,771	$ 1,708	$ 1,749	$ 1,765	$ 1,649	$ 1,654	$ 1,966
REPRESENTATIVES	3,774	3,791	3,703	3,659	3,507	3,401	3,369	3,314

(1) Including money market funds

Corporate Governance

The Corporation is a leading provider of personal financial planning services and related products in Canada. It is also Canada's largest sponsor and distributor of mutual funds.

The Corporation was established more than 50 years ago. Today, its controlling shareholder, Power Financial Corporation, holds 67.4% of its outstanding shares.

Operating in the financial services industry, the Corporation is already subject to many guidelines and regulations concerning its affairs. The Corporation believes that active Boards and Board Committees are the cornerstone of sound corporate governance, and offers the following comments with respect to its governance practices.

BOARD AND BOARD COMMITTEES

The Board of the Corporation is comprised of sixteen Directors, and there are four Committees of the Board. A total of twenty-two (22) Board and Board Committee meetings are scheduled for 1999. The mandate of the Board is to supervise the management of the business and affairs of the Corporation. The management of the mutual funds is supervised by a separate Board of Directors composed of individuals who are not Directors of the Board of the Corporation except for the Chief Executive Officer.

The mandates of the various Committees of the Board of the Corporation are as follows:

EXECUTIVE COMMITTEE

The Executive Committee exercises between meetings of the Board all powers of the Board of Directors except those powers which by law cannot be delegated to an executive committee. Its mandate is to supervise the management of the business and affairs of the Corporation and more specifically, the Committee will appoint senior officers, review their performance and determine their compensation. Nine (9) meetings are scheduled for 1999.

PUBLIC POLICY COMMITTEE

The Public Policy Committee reviews and assesses the Corporation's policies and procedures with respect to charitable contributions, personnel policies and employment practices and other matters relative to the Corporation's response to its social obligations and to the public interest in the conduct of its business. Two (2) meetings are scheduled for 1999.

AUDIT COMMITTEE

The primary mandate of the Audit Committee is to review the quarterly and annual financial statements, public disclosure documents containing financial information, and reports to be filed with regulatory authorities in connection with the financial condition of the Corporation; to review and monitor the role of the external auditor; and to ensure that appropriate internal control procedures are in place. Four (4) meetings are scheduled for 1999.

INVESTMENT COMMITTEE

The Investment Committee's mandate is to monitor the investment operations of the Corporation and its subsidiaries. The Committee is responsible for reviewing compliance with, and approving changes in, the investment policy of the Corporation and its subsidiaries. Three (3) meetings of the Committee are scheduled for 1999.

BOARD AND BOARD COMMITTEE COMPOSITION

The majority of the sixteen directors on the Board are considered to be unrelated to the Corporation. In addition, a number of directors are free from any interests in, or relationships with, either the Corporation or its controlling shareholder.

There is a majority of Directors unrelated to the Corporation on all Committees of the Board, and the Audit Committee is comprised entirely of non-management Directors. The Chairman of the Board and the Chairs of the Board Committees are all non-management Directors.

BOARD OPERATION

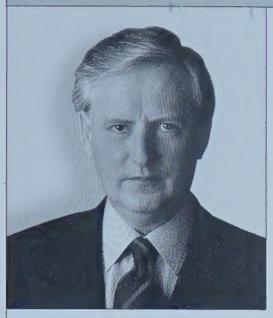
The Chairman's responsibility towards the efficient operation of the Board includes the recommendation, after consultation, of appropriate candidates for nomination to the Board, as well as recommendations concerning Directors' compensation and any change that would improve the working of the Board. Committees may, at the expense of the Corporation, retain such professional advisors as the Committees deem appropriate for purposes of carrying out their duties and responsibilities.

Management is expected to develop strategic plans for the operations of the Corporation. The Executive Committee is involved on an ongoing basis in reviewing and approving the strategic plans, as well as the annual business plans incorporating business objectives and key results for which management is also responsible every year. The strategic plans and annual business plans are submitted to the Board for ratification. Management is expected to implement the plans, achieve the objectives and anticipated results, and to report regularly to the Board and the Executive Committee on their progress.

SHAREHOLDER COMMUNICATIONS

In addition to the public documents the Corporation is required to file with the various regulatory authorities, the Corporation regularly communicates with its shareholders and the financial community through quarterly reports, the annual report and press releases, as needed. Any shareholder wishing to contact the Corporation may do so through the Corporate Secretary's Department. A question period is reserved for shareholders at the end of each Annual Shareholders' Meeting and shareholders are invited to ask questions or address their comments to the directors and senior officers of the Corporation.

Board of Directors



ROBERT GRATTON
Chairman
Investors Group Inc.
President and
Chief Executive Officer
Power Financial Corporation
Montreal, Quebec
▲ ■

H. SANFORD RILEY
President and
Chief Executive Officer
Investors Group Inc.
Winnipeg, Manitoba
▲ ● ■

JAMES W. BURNS, O.C.
Deputy Chairman
Power Corporation of Canada
Montreal, Quebec
▲ ●

ANDRÉ DESMARAIS
President and
Co-Chief Executive Officer
Power Corporation of Canada
Montreal, Quebec
▲

PAUL G. DESMARAIS, P.C., C.C.
Chairman of the Executive
Committee
Power Corporation of Canada
Montreal, Quebec

PAUL DESMARAIS, JR.
Chairman and
Co-Chief Executive Officer
Power Corporation of Canada
Montreal, Quebec
▲ ■

WANDA M. DOROSZ
President, Chief Executive Officer
and Managing Partner
Quorum Group of Companies
Toronto, Ontario
■

ROBERT G. GRAHAM
Company Director
Sarasota, Florida
▲ ■

J. DAVID A. JACKSON
Chairman and Partner
Blake, Cassels and Graydon
Toronto, Ontario
▲ ✣

THE RIGHT HONOURABLE DONALD F. MAZANKOWSKI, P.C.
Company Director
Vegreville, Alberta
▲ ✣ ■

JOHN McCALLUM
Professor of Finance
University of Manitoba
Winnipeg, Manitoba
✣ ●

ROY W. PIPER
Self-Employed Farmer
Elrose, Saskatchewan
✣ ●

THE HONOURABLE P. MICHAEL PITFIELD, P.C., Q.C.
Vice-Chairman
Power Corporation of Canada
Montreal, Quebec
✣

MICHEL PLESSIS-BÉLAIR, F.C.A.
Vice-Chairman and
Chief Financial Officer
Power Corporation of Canada
Montreal, Quebec
▲ ✣ ■

SUSAN SHERK
Senior Consultant
AGRA Earth and Environmental
St. John's, Newfoundland
▲ ●

GÉRARD VEILLEUX, O.C., D.U.
President
Power Communications Inc.
Montreal, Quebec
✣ ●

COMMITTEES
▲ Executive Committee
Chair, Robert Gratton
✣ Audit Committee
Chair, The Right Honourable
Donald F. Mazankowski, P.C.
● Public Policy Committee
Chair, Susan Sherk
■ Investment Committee
Chair, Robert Gratton

Officers

H. SANFORD RILEY
President and
Chief Executive Officer

MICHAEL A. MILLER
Executive Vice-President,
Products and Distribution

RICHARD E. ARCHER, C.F.A.
Executive Vice-President,
Investments

DALE A. G. PARKINSON, F.C.A.
Executive Vice-President

GARY WILTON
Executive Vice-President,
Client and Information Services

ALAN BROWNRIDGE, C.G.A., C.F.A.
Senior Vice-President, Bonds

ROBERT G. DARLING
Senior Vice-President, Securities

JEAN-GUY GOURDEAU, C.A., C.F.A.
Senior Vice-President,
Strategic Initiatives

DOMENIC GRESTONI, C.G.A.
Senior Vice-President,
Corporate Investments
and Treasury

MURRAY D. KILFOYLE, C.A.
Senior Vice-President,
Client Services

SANDRA A. METRAUX
Senior Vice-President, Marketing

A. SCOTT PENMAN, C.F.A.
Senior Vice-President, Equities

KEVIN E. REGAN, C.A.
Senior Vice-President, Sales

RONALD D. SAULL
Senior Vice-President and Chief
Information Officer

GLEN A. TORGERSON, C.F.P.
Senior Vice-President, Sales

GREGORY D. TRETIAK, C.A., C.F.P.
Senior Vice-President, Finance

BRIAN C. WEATHERBY, F.C.G.A.
Senior Vice-President, Taxation

W. TERRENCE WRIGHT, Q.C.
Senior Vice-President,
General Counsel and Secretary

WAYNE S. WALKER, C.A., C.F.P.
President,
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President, Les Services Investors Limitée

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Georges Cormier
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Region Managers noted except in case of Division Offices

Shareholder Information

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Fax: (204) 942-5350

STOCK EXCHANGE LISTINGS

The Toronto Stock Exchange
The Montreal Exchange
The Winnipeg Stock Exchange
Stock Exchange Symbol - IGI

AUDITORS

Deloitte & Touche

TRANSFER AGENTS AND REGISTRARS

Montreal Trust Company of Canada:
Vancouver, Calgary, Regina, Winnipeg,
Toronto, Halifax
Montreal Trust Company:
Montreal

ANNUAL MEETING

The Annual Meeting of Investors Group Inc. will be held in the Muriel Richardson Auditorium,
Winnipeg Art Gallery,
300 Memorial Boulevard,
Winnipeg, Manitoba,
on Friday, April 23, 1999, at
11:00 am Central Daylight Time.

ANALYST CONTACT

For additional financial information about the Corporation, please contact: Dale Parkinson,
Executive Vice-President
Telephone: (204) 956-8441
Fax: (204) 956-1446

SHAREHOLDER INFORMATION

For additional information concerning Investors Group Inc., please contact the Corporate Secretary's Department at the Corporation's Head Office.
Telephone: (204) 956-8532
Fax: (204) 956-1446
Website: http://www.investorsgroup.com

NORMAL COURSE ISSUER BID

The Corporation has renewed its Normal Course Issuer Bid through the facilities of The Toronto Stock Exchange and The Montreal Exchange from February 15, 1999 to February 14, 2000. During the course of the bid, the Corporation intends to purchase for cancellation up to 500,000 common shares being .24% of its outstanding capital. Shareholders may obtain a copy of the Bid, without charge, by contacting the Corporate Secretary's Department at the Corporation's Head Office.

Design: Campbell Sherrell Design Photography: Bernard Dorn Printing: Somerset Graphics



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One Canada Centre,
447 Portage Avenue
Winnipeg, Manitoba
R3C 3B6

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